

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY- )  
AMERICAN WATER COMPANY FOR AN ) CASE NO. 2018-00358  
ADJUSTMENT OF RATES )

NOTICE OF FILING

Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on May 14, 2019 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- All exhibits introduced at the evidentiary hearing conducted on May 14, 2019 in this proceeding;
- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on May 14, 2019.

A copy of this Notice, the certification of the digital video record, hearing log, and exhibits have been electronically served upon all persons listed at the end of this Notice.

Parties desiring to view the digital video recording of the hearing may do so at:

[http://psc.ky.gov/av\\_broadcast/2018-00358/2018-00358\\_14May19\\_Inter.asx](http://psc.ky.gov/av_broadcast/2018-00358/2018-00358_14May19_Inter.asx).

Parties wishing an annotated digital video recording may submit a written request by electronic mail to [pscfilings@ky.gov](mailto:pscfilings@ky.gov). A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 22<sup>nd</sup> day of May 2019.

A handwritten signature in black ink that reads "Gwen R. Pinson". The signature is written in a cursive style with a large initial 'G' and a long horizontal stroke at the end.

---

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In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY- )  
AMERICAN WATER COMPANY FOR AN ) CASE NO.  
ADJUSTMENT OF RATES ) 2018-00358

CERTIFICATION

I, KaBrenda L. Warfield, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on May 14, 2019. Hearing Log, Exhibit List, and Witness List are included with the recording on May 14, 2019.
2. I am responsible for the preparation of the digital recording;
3. The digital recording accurately and correctly depicts the Hearing of May 14, 2019.
4. The Hearing Log attached to this Certificate accurately and correctly states the events that occurred at the Hearing of May 14, 2019 and the time at which each occurred.

Signed this 20<sup>th</sup> day of May, 2019.

  
KaBrenda L. Warfield, CKP  
Paralegal Consultant

  
Kathy Gillum, Notary Public  
State at Large  
Commission Expires: September 3, 2021  
ID#: 584704



<b>Date:</b>	<b>Type:</b>	<b>Location:</b>	<b>Department:</b>
5/14/2019	General Rates	Hearing Room 1	Hearing Room 1 (HR 1)

Judge: Bob Cicero; Talina Mathews; Michael Schmitt  
 Witness: Richard A Baudino ; Lane Kollen ; Melissa L Schwarzell  
 Clerk: KaBrenda Warfield

<b>Event Time</b>	<b>Log Event</b>	
8:24:02 AM	Session Started	
8:24:03 AM	Session Paused	
8:57:27 AM	Session Resumed	
8:57:28 AM	Chairman Schmitt Note: Fields, Angela	We are now back on the record in the case of 2018-00358 Application Of Kentucky American Water Company For An Adjustment Of Rates this is the begin of the second day of the hearing.
8:57:45 AM	Chairman Schmitt Note: Fields, Angela	At this time is there any member of the public present who would like to step forward and make a statement to the Public Service Commission either orally or in writing about this case or any of the issues in the case if so please approach the microphone at this time and state your name and residence address?
8:58:05 AM	Chairman Schmitt Note: Fields, Angela	No one having come forward. We are now ready to take some additional testimony. Mr. Ingram do you have a witness?
8:58:17 AM	Chairman Schmitt - witness Schwarzell Note: Fields, Angela	Swearing the witness in.
8:58:27 AM	Chairman Schmitt Note: Fields, Angela	You may be seated. Counsel.
8:58:29 AM	Atty Ingram Kentucky-American - witness Schwarzell Note: Fields, Angela	Direct Examination.
8:59:26 AM	Atty Ingram Kentucky-American Note: Fields, Angela	Mrs. Schwarzell is available for Cross your honour.
8:59:28 AM	Chairman Schmitt Note: Fields, Angela	Mr. McNeil Mr. Chandler questions?
8:59:32 AM	Asst. Atty Gen. McNeil - witness Schwarzell Note: Fields, Angela	Cross Examination.
9:02:19 AM	POST HEARING DATA REQUEST Note: Fields, Angela Note: Fields, Angela	Provide work papers to prove that out. Asst. Atty Gen. McNeil - witness Schwarzell
9:02:25 AM	Asst. Atty Gen. McNeil - witness Schwarzell Note: Fields, Angela	Cross Continued.
9:05:59 AM	Asst. Atty Gen. McNeil - witness Schwarzell Note: Fields, Angela	Chairman may I approach?
9:06:18 AM	Asst. Atty Gen. McNeil - witness Schwarzell Note: Fields, Angela	I'm passing out a packet that is all in the record, just selections from your rebuttal and certain responses you sponsored.
9:06:46 AM	Asst. Atty Gen. McNeil - witness Schwarzell Note: Fields, Angela	Cross Continued.

9:17:47 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Your argument tho is the same argument that every utility has [click on the link for Vice Chairman Cicero's remarks.]

9:18:21 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela I understand the normalization and I also understand the fact that you would have to go out and obtain [click on link for Vice Chairman Cicero's remarks.]

9:19:18 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela That was just an interjection it's Mr. McNeil's time to ask questions. Thank you.

9:19:27 AM Asst. Atty Gen. McNeil - witness Schwarzell  
Note: Fields, Angela Cross Continued.

9:28:02 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Do you think that Kentucky American Water would be open to a stay out period if they received a QIP approval?

9:28:58 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela I would take that as a no then.

9:29:05 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Thank you.

9:29:07 AM Asst. Atty Gen. McNeil - witness Schwarzell  
Note: Fields, Angela Cross Continued.

9:30:28 AM Asst. Atty Gen. McNeil - witness Schwarzell  
Note: Fields, Angela No further questions Chairman.

9:30:30 AM Chairman Schmitt  
Note: Fields, Angela Mr. Gardner Mr. Osterloh questions?

9:30:47 AM Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Examination.

9:33:30 AM POST HEARING DATA REQUEST  
Note: Fields, Angela Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela How many employees American Water has corporate.

9:38:54 AM Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela I'm going to hand out just for ease of reference the service agreement and then the chart relating to the payments that Kentucky American Water makes to the service company.

9:39:08 AM Atty Osterloh LFUCG - witness Schwarzell  
Note: Fields, Angela May I approach?

9:39:10 AM Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

9:43:06 AM POST HEARING DATA REQUEST  
Note: Fields, Angela Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela Capital cost.

9:43:48 AM Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

9:49:31 AM POST HEARING DATA REQUEST  
Note: Fields, Angela A manual that determines how those cost are allocated?  
Note: Fields, Angela Atty Gardner LFUCG - witness Schwarzell

9:50:22 AM Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

9:52:46 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela So if somebody pushes back and says that their portion is unreasonable [click on the link for Vice Chairman Cicero's remarks.]

9:53:03 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Who receives the push back portion should it be decided that it was unfair to the locality that it was being allocated to?

9:53:26 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela That amount has to be allocated to someone else then?

9:53:43 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Even on a long term basis cost are accrued cost are allocated there's no disappears and someone eats it at the corporate level.

9:54:23 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela That's an efficiency improvement that reduced the over all cost [click on the link for Vice Chairman Cicero's remarks.]

9:55:12 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Short term versus long term short term is a push back to say that [click on the link for Vice Chairman Cicero's remarks.]

9:55:47 AM Vice Chairman Cicero  
Note: Fields, Angela Sorry Mr. Gardner go ahead.

9:55:49 AM POST HEARING DATA REQUEST  
Note: Fields, Angela A copy of whatever document allows the service company to question and disagree with a charge.  
Note: Fields, Angela Atty Gardner LFUCG - witness Schwarzell

9:57:04 AM Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

9:58:30 AM POST HEARING DATA REQUEST  
Note: Fields, Angela Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela The most recent bill that Kentucky American Water received.

9:58:54 AM Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:00:00 AM POST HEARING DATA REQUEST  
Note: Fields, Angela To know whether there has to be something affirmative every month that the Kentucky American Water Company does to pay that or after a set period of time does service company draw that?  
Note: Fields, Angela Atty Gardner LFUCG - witness Schwarzell

10:00:42 AM Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:03:03 AM Atty Gardner LFUCG - witness Schwarzell  
Note: Fields, Angela That's all I have. Thank you.

10:03:06 AM Atty Osterloh LFUCG  
Note: Fields, Angela May I proceed?

10:03:07 AM Atty Osterloh LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Examination.

10:05:00 AM POST HEARING DATA REQUEST  
Note: Fields, Angela Atty Osterloh LFUCG - witness Schwarzell  
Note: Fields, Angela Inaudible

10:05:27 AM Atty Osterloh LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:07:00 AM POST HEARING DATA REQUEST  
Note: Fields, Angela Click on link.  
Note: Fields, Angela Atty Osterloh LFUCG - witness Schwarzell

10:08:47 AM Atty Osterloh LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:09:50 AM POST HEARING DATA REQUEST  
Note: Fields, Angela Show the amounts that have been refunded and any amounts that have not been refunded  
Note: Fields, Angela Atty Osterloh LFUCG - witness Schwarzell

10:10:05 AM Atty Osterloh LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:10:45 AM POST HEARING DATA REQUEST  
Note: Fields, Angela Provide the updated analysis reflecting the Final Order by the Commission in KU's rate case.  
Note: Fields, Angela Atty Osterloh LFUCG - witness Schwarzell

10:11:00 AM Atty Osterloh LFUCG - witness Schwarzell  
Note: Fields, Angela May I approach please?

10:11:44 AM Atty Osterloh LFUCG - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:17:08 AM Atty Osterloh LFUCG - witness Schwarzell  
Note: Fields, Angela No further questions.

10:17:10 AM Chairman Schmitt  
Note: Fields, Angela This is a good time to take a break. So Let's take our morning recess at this time and we'll reconvene at twenty minutes until eleven o'clock.

10:17:24 AM Session Paused

10:34:04 AM Session Resumed

10:34:05 AM Chairman Schmitt  
Note: Fields, Angela We are now back on the record. Mr. Pinney cross examination?

10:34:10 AM GC Pinney PSC - witness Schwarzell  
Note: Fields, Angela Cross Examination.

10:35:46 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Well I think that you should pursue that [click on the link for Vice Chairman Cicero's remarks.]

10:36:00 AM GC Pinney PSC - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:37:20 AM POST HEARING DATA REQUEST  
Note: Fields, Angela GC Pinney PSC - witness Schwarzell  
Note: Fields, Angela Click on link.

10:38:06 AM GC Pinney PSC - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:40:52 AM POST HEARING DATA REQUEST  
Note: Fields, Angela GC Pinney PSC - witness Schwarzell  
Note: Fields, Angela Provide in Excel Spreadsheet form the ? of each of the projects.

10:41:14 AM GC Pinney PSC - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:43:42 AM POST HEARING DATA REQUEST  
Note: Fields, Angela A revised schedule m billing analysis based upon the revised revenue requirements that were set fourth in the April 15, 2019 filing.  
Note: Fields, Angela GC Pinney PSC - witness Schwarzell

10:44:05 AM GC Pinney PSC - witness Schwarzell  
Note: Fields, Angela Cross Continued.

10:46:31 AM GC Pinney PSC - witness Schwarzell  
Note: Fields, Angela Staff has no further questions.

10:46:33 AM Chairman Schmitt  
Note: Fields, Angela Commissioner Cicero questions.

10:46:36 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela So Kentucky-American Water is requesting a QIP program?

10:46:45 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela And you are also asking for a deviation from the 15% to 20%?

10:46:51 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Typically a QIP type program would be granted in recognition of a cost to replace infrastructure [click on link for Vice Chairman Cicero's remarks.]

10:49:35 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela That would be the same argument that every utility would make in terms of deviation and at the same time receiving an accelerated pipe line replacement program.

10:50:24 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela I believe at the end of 2018 the water loss was 20.8%?

10:50:37 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela So at this point even with the replacement program Kentucky-American Water [click on the link for Vice Chairman Cicero's remarks.]

10:52:41 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela You seem to diminish the important of the QIP Program [click on the link for Vice Chairman Cicero's remarks.]

10:53:09 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Are you saying the QIP Program is a valuable program or its not?

10:54:05 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Well you may or may not be aware, I believe you are because Kentucky-American Water recently aquired Rockcastle and they were one of the water utilities that the Commission has recently subjected to an investigation on excessive water loss [click on the link for Vice Chairman Cicero's remarks.]

10:55:40 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela So I'm still unsure here on this QIP Program and its viability or whether you think there's benefits or not?

10:57:55 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Right. Not to interrupt you, I mean I had the discussion with Mr. Rowe so I think my open ended question was with regard to [click on the link for Vice Chairman Cicero's remarks.]

10:59:28 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Let's go back to the leak detection program.

10:59:34 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela When I asked the question about whether Kentucky-American Water would be willing to stay out for a certain amount of time in return for a QIP Program you were [click on link for Vice Chairman Cicero's remarks.]

10:59:57 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela But in terms of a leak detection program [click on link for Vice Chairman Cicero's remarks.]

11:00:06 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Has Kentucky-American identified mains as the main source of leakage or is it service lines?

11:00:48 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela There appears to be three levels here. Did I understand you to say that there are no employees for American Water they're all at the service corp level?

11:01:29 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela So when we go back to allocated cost you and I both agree that when there is cost incurred they have to be allocated to someone?

11:01:39 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Administrative overhead is not a profit center they don't earn any money therefore whatever cost are incurred they have to go somewhere? Do you agree with that?

11:01:50 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela So we know that service corp is allocated because those are servicing [click on the link for Vice Chairman Schmitt's remarks.]

11:02:05 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela If there is personel at American Water Corp I would like to know how those are flowing down through the process?

11:02:14 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Because this agreement I believe is just between Service Corp and Kentucky American Water right?

11:02:25 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela So that means the allocated cost would have to go from American Water into the Service Corp and then down to Kentucky-American water?

11:02:38 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela I'm interested to finding out how those cost work there way through.

11:02:43 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela You also made a comment that you believe the prepayment of invoices was okay [click for Vice Chairman Cicero's remarks.]

11:03:04 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela How far in advance is the prepayment paid?

11:03:07 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Two weeks ahead of time?

11:03:18 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela You realize that the contract talks about one of the permissible charges under the allowance for over head is interest on working capital?

11:03:31 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela So when you say it's done on a cost basis there and it should be permitted on a prepayment basis [click on the link for Vice Chairman Cicero's remarks.]

11:03:48 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Do they?

11:04:29 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela All the items that are in a contract?

11:06:08 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Fourty thousand dollar credit sits on Service Corps books?

11:06:18 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela So it's on the Service Corps books that they are reallocating back [click on the link for Vice Chairman Cicero's remarks.]

11:06:46 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela It's the fourty thousand?

11:06:51 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela What's the total that they have for interest income on their water service corp?

11:07:01 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela It's not important. We are only interested in the Kentucky-American portion of the interest income.

11:07:12 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela ? the fourty thousand I would have an issue myself for a prepayment [click on the link for remarks.]

11:07:55 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela Well the only reason I took issue with your statement that it is done on a cost basis is because [click on link for Vice Chairman Cicero's remarks.]

11:09:07 AM Vice Chairman Cicero - witness Schwarzell  
Note: Fields, Angela I don't have anything else Chairman.

11:09:10 AM	Chairman Schmitt Note: Fields, Angela	Commissioner Mathews?
11:09:12 AM	Chairman Schmitt Note: Fields, Angela	I have no questions.
11:09:13 AM	Chairman Schmitt Note: Fields, Angela	Mr. Ingram questions?
11:09:19 AM	Atty Ingram Kentucky-American - witness Schwarzell Note: Fields, Angela	Redirect.
11:14:46 AM	Atty Ingram Kentucky-American - witness Schwarzell Note: Fields, Angela	No further questions.
11:14:49 AM	Chairman Schmitt Note: Fields, Angela	Commissioner Cicero did you have something else?
11:14:52 AM	Vice Chairman Cicero - witness Schwarzell Note: Fields, Angela	In the Attorney General's first request for information item 4 [click on the link for Vice Chairman Cicero's remarks.]
11:15:24 AM	Vice Chairman Cicero - witness Schwarzell Note: Fields, Angela	Why does it go like this?
11:15:30 AM	Vice Chairman Cicero - witness Schwarzell Note: Fields, Angela	So it's a decrease of fifteen and then an increase of twenty five. It's a significant change.
11:16:53 AM	Vice Chairman Cicero - witness Schwarzell Note: Fields, Angela	Can you provide that answer?
11:16:55 AM	Vice Chairman Cicero - witness Schwarzell Note: Fields, Angela	Alright Mrs. Vinsel do you have that?
11:16:59 AM	Vice Chairman Cicero - witness Schwarzell Note: Fields, Angela	Thank you.
11:17:01 AM	Chairman Schmitt - witness Schwarzell Note: Fields, Angela	May this witness be excused?
11:17:03 AM	Chairman Schmitt - witness Schwarzell Note: Fields, Angela	You may step down thank you.
11:17:05 AM	Chairman Schmitt Note: Fields, Angela	Alright is that the case for Kentucky-American or Mr. Ingram do you have something else?
11:17:14 AM	Chairman Schmitt Note: Fields, Angela	Alright who's up next AG?
11:17:17 AM	Chairman Schmitt Note: Fields, Angela	You may call a witness.
11:18:26 AM	Chairman Schmitt Note: Fields, Angela	Now let me ask Mr. Chandler, I know you are sharing this witness with Lexington you're doing the only direct is that correct?
11:18:36 AM	Chairman Schmitt Note: Fields, Angela	Alright thank you.
11:18:37 AM	Chairman Schmitt - witness Kollen Note: Fields, Angela	Swearing the witness in.
11:18:46 AM	Asst. Atty Gen. Chandler Note: Fields, Angela	Before I introduce Mr. Kollen, can the AG move to introduce AG Exhibit 15 that was provided yesterday?
11:18:48 AM	Asst. Atty Gen. Chandler - witness Kollen Note: Fields, Angela	Direct Examination.
11:18:57 AM	Chairman Schmitt Note: Fields, Angela	Is there any objection?
11:18:59 AM	Chairman Schmitt Note: Fields, Angela	Then let it be marked and filed as AG Exhibit 15.

11:19:04 AM	Asst. Atty Gen. Chandler - witness Kollen Note: Fields, Angela	Direct Examination.
11:30:13 AM	Asst. Atty Gen. Chandler - witness Kollen Note: Fields, Angela	Thank you Mr. Kollen. Mr. Kollen is available for cross examination Chairman.
11:30:19 AM	Atty Ingram Kentucky-American witness Kollen Note: Fields, Angela	Cross Examination.
11:32:18 AM	Asst. Atty Gen. Chandler - witness Kollen Note: Fields, Angela	Can you provide him a copy if you are going to site to specific sources and specific amounts?
11:32:28 AM	Atty Ingram Kentucky-American witness Kollen Note: Fields, Angela	Cross Continued.
11:33:57 AM	Chairman Schmitt Note: Fields, Angela	Can I ask a question?
11:33:58 AM	Chairman Schmitt - witness Kollen Note: Fields, Angela	Do you agree with the accuracy of the testimony or are you agreeing that the testimony you were shown made that statement?
11:34:18 AM	Atty Ingram Kentucky-American witness Kollen Note: Fields, Angela	Cross Continued.
11:36:00 AM	Kentucky-American Reference 01 Note: Fields, Angela Note: Fields, Angela	Commissions Decision in Case No. 2014-00396 Atty Ingram Kentucky-American witness Kollen
11:39:30 AM	Atty Ingram Kentucky-American witness Kollen Note: Fields, Angela	Cross Continued.
11:40:45 AM	Kentucky-American Reference 02, 03, and 04 Note: Fields, Angela Note: Fields, Angela	Atty Ingram Kentucky-American witness Kollen Order in Case No. 92-452, Order in 97-034, and Order 2012-00520
11:41:08 AM	Chairman Sdchmitt Note: Fields, Angela	You can if you prefer but it doesn't matter because they are going to be cited in briefs so we know what they are and it's not necessary but when Counsel wants to do that for one reason or another inaudible.
11:41:38 AM	Chairman Schmitt Note: Fields, Angela	Sometimes when I check out the record or something it will all be there rather than find it somewhere else but it really isn't necessary. So whatever you prefer.
11:43:41 AM	Atty Ingram Kentucky-American witness Kollen Note: Fields, Angela	Cross Continued.
11:49:36 AM	Atty Ingram Kentucky-American witness Kollen Note: Fields, Angela	May I approach your honour?
11:49:39 AM	Atty Ingram Kentucky-American witness Kollen Note: Fields, Angela	Cross Continued.
11:59:40 AM	Kentucky-American Reference 05, 06, and 07 Note: Fields, Angela Note: Fields, Angela	Atty Ingram Kentucky-American witness Kollen Order in Case No. 2018-0035, Order in 2018-00034, and Order in 2018-00040
12:01:22 PM	Atty Ingram Kentucky-American witness Kollen Note: Fields, Angela	Cross Continued.
12:10:26 PM	Asst. Atty Gen. Chandler - witness Kollen Note: Fields, Angela	You honour he already said that he doesn't have a recollection of the Orders it's improper for him to continue to ask.
12:10:32 PM	Chairman Schmitt Note: Fields, Angela	Sustained.
12:10:35 PM	Atty Ingram Kentucky-American witness Kollen Note: Fields, Angela	I have no further questions.

12:10:36 PM	Chairman Schmitt Note: Fields, Angela	Alright at this time lets take a lunch break until 1:15 and then we'll come back and try to finish up with additional cross of Mr. Kollen's
12:10:52 PM	Session Paused	
1:08:59 PM	Session Resumed	
1:09:00 PM	Chairman Schmitt Note: Fields, Angela	Okay, we are now back on the record. Mr. Kollen is back on the stand. Staff do you have questions?
1:09:11 PM	Asst. GC Vinsel PSC - witness Kollen Note: Fields, Angela	Cross Examination.
1:10:43 PM	Asst. GC Vinsel PSC - witness Kollen Note: Fields, Angela	Staff has no further questions.
1:10:46 PM	Chairman Schmitt Note: Fields, Angela	Commissioner Cicero?
1:10:47 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	So if I said forty years seemed reasonable that would just be an opinion right?
1:10:49 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	Cross Examination.
1:11:13 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	It's very subjective.
1:11:42 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	Mr. Ingram pointed out several rate cases that the unprotected rate classes were given an amortization period of between [click on the link for Vice Chairman Cicero's remarks.]
1:11:55 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	Is that your opinion or why are you relying on the fact that they may have been settlements?
1:13:48 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	I guess the exception I took is that because its a settlement that sets them apart from what the Commission is looking at [click on the link for Vice Chairman Cicero's remarks.]
1:15:16 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	I think you also asked a question about the [click on the link for Vice Chairman Cicero's remarks.]
1:15:45 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	Can you refresh us on what that new evidence is?
1:18:04 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	You may contend that their argument is wrong. I've heard the infinity argument before and I believe that the Commission was unpersuaded by that argument.
1:18:14 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	No I have heard that argument before and I don't believe it made a difference.
1:18:21 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	I appreciate you providing your insight into it.
1:18:25 PM	Vice Chairman Cicero - witness Kollen Note: Fields, Angela	Thank you. I don't have anything else Chairman.
1:18:27 PM	Chairman Schmitt Note: Fields, Angela	Commissioner Mathews?
1:18:29 PM	Chairman Schmitt Note: Fields, Angela	I have no questions.
1:18:31 PM	Chairman Schmitt Note: Fields, Angela	Mr. Chandler?

1:18:35 PM	Asst. Atty Gen. Chandler - witness Kollen Note: Fields, Angela	Redirect.
1:19:40 PM	AG EXHIBIT 16 Note: Fields, Angela Note: Fields, Angela	Asst. Atty Gen. Chandler - witness Kollen Testimony Of Matthew A. Horeled On Behalf Of Kentucky Power Company In Support Of The Settlement Agreement Case No. 2018-00035
1:20:34 PM	Asst. Atty Gen. Chandler - witness Kollen Note: Fields, Angela	Redirect Continued.
1:27:18 PM	Asst. Atty Gen. Chandler - witness Kollen Note: Fields, Angela	That's all the questions I have for Mr. Kollen
1:27:19 PM	Chairman Schmitt - witness Kollen Note: Fields, Angela	May this witness be excused?
1:27:24 PM	Chairman Schmitt - witness Kollen Note: Fields, Angela	You may step down and be excused.
1:27:25 PM	Chairman Schmitt Note: Fields, Angela	Another witness?
1:27:35 PM	Chairman Schmitt - witness Baudino Note: Fields, Angela	Swearing the witness in.
1:27:56 PM	Chairman Schmitt Note: Fields, Angela	Please be seated. Mr. Chandler.
1:28:01 PM	Asst. Atty Gen. Chandler - witness Baudino Note: Fields, Angela	Direct Examination.
1:28:46 PM	Asst. Atty Gen. Chandler - witness Baudino Note: Fields, Angela	Chairman Mr. Baudino is available for cross examination.
1:28:49 PM	Chairman Schmitt Note: Fields, Angela	Mr. Ingram Mrs. Braun?
1:28:51 PM	Atty Braun Kentucky-American - witness Baudino Note: Fields, Angela	Cross Examination.
1:30:47 PM	KENTUCKY-AMERICAN EXHIBIT 01 Note: Fields, Angela Note: Fields, Angela	Atty Braun Kentucky-American - witness Baudino DIRECT TESTIMONY AND EXHIBITS OF RICHARD A. BAUDINO CASE NO. 16-0550-W-P
1:31:36 PM	Atty Braun Kentucky-American - witness Baudino Note: Fields, Angela	Cross Continued.
1:39:35 PM	KENTUCKY-AMERICAN EXHIBIT 02 Note: Fields, Angela Note: Fields, Angela	Atty Braun Kentucky-American - witness Baudino Order from West Virginia Case No. 16-0550-W-DSIC
1:40:12 PM	Atty Braun Kentucky-American - witness Baudino Note: Fields, Angela	Cross Continued.
1:55:46 PM	KENTUCKY-AMERICAN EXHIBIT 03 Note: Fields, Angela Note: Fields, Angela	Copy of the press release of the downgrades. Atty Braun Kentucky-American - witness Baudino
1:56:30 PM	Atty Braun Kentucky-American - witness Baudino Note: Fields, Angela	Cross Continued.
2:04:20 PM	KENTUCKY-AMERICAN EXHIBIT 04 Note: Fields, Angela Note: Fields, Angela	FEDERAL FUNDS RATE JANUARY 2014 THRU JANUARY 2019 Atty Braun Kentucky-American - witness Baudino
2:05:06 PM	Atty Braun Kentucky-American - witness Baudino Note: Fields, Angela	Cross Continued.
2:09:05 PM	Atty Braun Kentucky-American - witness Baudino Note: Fields, Angela	Thank you. I have no other questions.
2:09:07 PM	Chairman Schmitt Note: Fields, Angela	Any questions?

2:09:11 PM	GC Pinney PSC - witness Baudino Note: Fields, Angela	Cross Examination.
2:11:55 PM	Chairman Schmitt - witness Baudino Note: Fields, Angela	How do you know the Commission didn't make it's own decision?
2:12:19 PM	Chairman Schmitt - witness Baudino Note: Fields, Angela	Go a head. I don't have another question.
2:12:25 PM	GC Pinney PSC - witness Baudino Note: Fields, Angela	Cross Continued.
2:16:08 PM	GC Pinney PSC - witness Baudino Note: Fields, Angela	No further questions your honour.
2:16:14 PM	Commissioner Mathews - witness Baudino Note: Fields, Angela	May I?
2:16:16 PM	Commissioner Mathews - witness Baudino Note: Fields, Angela	You said that it's the Attorney General's and your position. Is that also Lexington-Fayette Urban County Government's position?
2:16:40 PM	Chairman Schmitt - witness Baudino Note: Fields, Angela	Don't leave out Lexington.
2:16:44 PM	Chairman Schmitt - witness Baudino Note: Fields, Angela	They contributed to the fees. Commissioner Cicero questions?
2:16:53 PM	Vice Chairman Cicero - witness Baudino Note: Fields, Angela	Are you currently representing any other organizations in front of a state regulatory group?
2:17:02 PM	Vice Chairman Cicero - witness Baudino Note: Fields, Angela	Any other organization in front of any other state Public Service Commission?
2:17:12 PM	Vice Chairman Cicero - witness Baudino Note: Fields, Angela	And are you recommending in those cases a similar ROE or are you saying that Kentucky-American Water happens to be just similar enough that this 9.1 that you are recommending is just unique to them?
2:18:01 PM	Vice Chairman Cicero - witness Baudino Note: Fields, Angela	Over the past year how many times would you say you represented someone before a state Public Service Commission?
2:18:52 PM	Vice Chairman Cicero - witness Baudino Note: Fields, Angela	In those eleven cases have they all been settled?
2:19:15 PM	Vice Chairman Cicero - witness Baudino Note: Fields, Angela	What would you say the highest ROE was in those eleven cases that you recommended?
2:19:56 PM	Vice Chairman Cicero - witness Baudino Note: Fields, Angela	And did you have any Commission agree with your assessment and rule that it should be 9.1 or 9.2 or 9.3 have you had any Commission agree with you on that assessment that that's where the ROE needs to be?
2:21:37 PM	Vice Chairman Cicero - witness Baudino Note: Fields, Angela	So with all due respect [click on the link for Vice Chairman Cicero's remarks.]
2:22:40 PM	Vice Chairman Cicero - witness Baudino Note: Fields, Angela	So that's just my comment. I don't have anything else.
2:22:45 PM	Chairman Schmitt Note: Fields, Angela	Commissioner Mathews?
2:22:48 PM	Chairman Schmitt - witness Baudino Note: Fields, Angela	Over the 2015, 2016, to now the dow jones industrial average is up about ten thousand points isn't that correct?
2:23:08 PM	Chairman Schmitt - witness Baudino Note: Fields, Angela	Don't they always say a rising tide lifts all the boats?

2:23:15 PM Chairman Schmitt - witness Baudino  
Note: Fields, Angela No further questions.

2:23:16 PM Chairman Schmitt  
Note: Fields, Angela Anything?

2:23:19 PM Asst. Atty Gen. Chandler - witness Baudino  
Note: Fields, Angela Redirect.

2:25:31 PM Vice Chairman Cicero - witness Baudino  
Note: Fields, Angela Versus what was recommended?

2:25:35 PM Vice Chairman Cicero - witness Baudino  
Note: Fields, Angela 9.1 versus what was recommended?

2:25:39 PM Vice Chairman Cicero - witness Baudino  
Note: Fields, Angela Right and I think Mr. Chandler asked [click on the link for Vice Chairman Cicero's remarks.]

2:26:40 PM Asst. Atty Gen. Chandler - witness Baudino  
Note: Fields, Angela Redirect Continued.

2:29:56 PM Chairman Schmitt - witness Baudino  
Note: Fields, Angela Let me ask a question. If short terms rates ten years or whatever is higher than the thirty year is that sometimes considered to be evidence of an upcoming recession?

2:30:21 PM Asst. Atty Gen. Chandler - witness Baudino  
Note: Fields, Angela Redirect Continued.

2:34:45 PM Chairman Schmitt  
Note: Fields, Angela Why don't we ask him questions rather than lead him and he might understand what he is supposed to say.

2:35:02 PM Asst. Atty Gen. Chandler - witness Baudino  
Note: Fields, Angela Redirect Continued.

2:38:01 PM Asst. Atty Gen. Chandler - witness Baudino  
Note: Fields, Angela Those are all the questions I have for Mr. Baudino Chairman.

2:38:40 PM Chairman Schmitt  
Note: Fields, Angela Commissioner Cicero has a question.

2:38:41 PM Vice Chairman Cicero - witness Baudino  
Note: Fields, Angela Mr. Chandler had you go through the ROE's in several cases [click on the link for Vice Chairman Cicero's remarks.]

2:38:54 PM Vice Chairman Cicero - witness Baudino  
Note: Fields, Angela And there was several that were in the low nines, those were all from 2018 is that correct?

2:39:21 PM Vice Chairman Cicero - witness Baudino  
Note: Fields, Angela Would you say that, that contributed to the downgrading by Moody's?

2:40:04 PM Vice Chairman Cicero - witness Baudino  
Note: Fields, Angela And it talked about its declining financial condition. And I wondered if that was a possibility that contributed something to it?

2:41:57 PM Vice Chairman Cicero - witness Baudino  
Note: Fields, Angela You would agree that a higher ROE increases cash flow?

2:42:02 PM Vice Chairman Cicero - witness Baudino  
Note: Fields, Angela I don't have any other questions.

2:42:04 PM Chairman Schmitt - witness Baudino  
Note: Fields, Angela And you would agree probably that a lack of a sufficient income to support the company's operations would generally require more debt?

2:42:34 PM Chairman Schmitt - witness Baudino  
Note: Fields, Angela No further questions.

2:42:35 PM Chairman Schmitt - witness Baudino  
Note: Fields, Angela May this witness be excused?

2:42:40 PM	Atty Braun Kentucky-American Water Note: Fields, Angela	Your honour I neglected to move for admission of Exhibits one thru four. I would like to do so now.
2:42:46 PM	Chairman Schmitt Note: Fields, Angela	Sustained. Let Kentucky-American Exhibits one thru four be admitted into evidence.
2:42:52 PM	Chairman Schmitt Note: Fields, Angela	Anything else?
2:42:52 PM	Asst. Atty Gen. Chandler Note: Fields, Angela	The Attorney General would like to move for the admission of Attorney General sixteen.
2:42:57 PM	Chairman Schmitt Note: Fields, Angela	AG sixteen is also admitted.
2:43:01 PM	Chairman Schmitt Note: Fields, Angela	Okay anything else?
2:43:04 PM	Chairman Schmitt Note: Fields, Angela	I drafted an Order because we are out of time [click on the link for Chairman Schmitt's remarks.]
2:43:21 PM	Chairman Schmitt Note: Fields, Angela	So here is how it is going to be and if it becomes some impossible problem call file a motion okay.
2:43:30 PM	POST HEARING DATA REQUEST Note: Fields, Angela	SHALL BE FILED ON OR BEFORE THURSDAY MAY 16, 2019.
2:43:37 PM	RESPONSES TO POST HEARING DATA REQUEST Note: Fields, Angela	SHALL BE FILED ON OR BEFORE FRIDAY MAY 24, 2019.
2:43:45 PM	THE APPLICANT SHALL FILE ITS POST HEARING BRIEF Note: Fields, Angela	ON OR BEFORE FRIDAY MAY 31, 2019.
2:43:51 PM	INTERVENORS SHALL FILE POST HEARING BRIEFS Note: Fields, Angela	ON OR BEFORE TUESDAY JUNE 11, 2019.
2:43:58 PM	THE APPLICANT'S REPLY BRIEF Note: Fields, Angela	SHALL BE FILED ON OR BEFORE FRIDAY JUNE 14, 2019.
2:44:04 PM	THIS CASE SHALL STAND SUBMITTED FOR DECISION Note: Fields, Angela	BY THE COMMISSION EFFECTIVE 12:01 AM EATERN DAYLIGHT TIME ON JUNE 15, 2019.
2:44:51 PM	Chairman Schmitt Note: Fields, Angela	Alright if there is nothing else. Anything else? Then this hearing is adjourned. Thank you.
2:44:59 PM	Session Paused	
2:45:04 PM	Session Ended	



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<b>Name:</b>	<b>Description:</b>
AG Exhibit 16	Testimony Of Matthew A. Horeled On Behalf Of Kentucky Power Comapny In Support Of The Settlement Agreement In Case No. 2018-00035.
Kentucky-American Exhibit 01	Direct Testimony And Exhibits Of Richard A. Baudino On Behalf Of The West Virginia Energy Users Group J. Kennedy And Associates, Inc. September 22, 2016 Case No. 16-0550-W-P.
Kentucky-American Exhibit 02	Order In Case No. 16-0550-W-DSIC.
Kentucky-American Exhibit 03	Moody's Investors Service Press Release April 1, 2019.
Kentucky-American Exhibit 04	Effective Federal Funds Rate From January 2014 Thru January 2019.

**PUBLIC SERVICE COMMISSION  
OF WEST VIRGINIA  
CHARLESTON**

**CASE NO. 16-0550-W-P**

**WEST VIRGINIA-AMERICAN WATER COMPANY, a public utility,  
Charleston, West Virginia.**

**Petition for approval of a 2017 Infrastructure Replacement  
Program Surcharge Mechanism.**

**DIRECT TESTIMONY  
AND EXHIBITS  
OF  
RICHARD A. BAUDINO**

**ON BEHALF OF**

**THE WEST VIRGINIA ENERGY USERS GROUP**

**J. KENNEDY AND ASSOCIATES, INC.**

**SEPTEMBER 22, 2016**



**PUBLIC SERVICE COMMISSION  
OF WEST VIRGINIA  
CHARLESTON**

**CASE NO. 16-0550-W-P**

**WEST VIRGINIA-AMERICAN WATER COMPANY, a public utility  
Charleston, West Virginia**

**Petition for approval of a 2017 Infrastructure Replacement  
Program Surcharge Mechanism**

**DIRECT TESTIMONY OF RICHARD A. BAUDINO**

1 **Q. Please state your name and business address.**

2 A. My name is Richard A. Baudino. My business address is J. Kennedy and Associates, Inc.  
3 ("Kennedy and Associates"), 570 Colonial Park Drive, Suite 305, Roswell, Georgia  
4 30075.  
5

6 **Q. What is your occupation and by whom are you employed?**

7 A. I am a consultant to J. Kennedy and Associates.  
8

9 **Q. Please describe your education and professional experience.**

10 A. I received my Master of Arts degree with a major in Economics and a minor in Statistics  
11 from New Mexico State University in 1982. I also received my Bachelor of Arts Degree  
12 with majors in Economics and English from New Mexico State in 1979. I began my  
13 professional career with the New Mexico Public Service Commission Staff in October  
14 1982 and was employed there as a Utility Economist. During my employment with the  
15 Staff, my responsibilities included the analysis of a broad range of issues in the  
16 ratemaking field. Areas in which I testified included cost of service, rate of return, rate

*J. Kennedy and Associates, Inc.*

1 design, revenue requirements, analysis of sale/leasebacks of generating plants, utility  
2 finance issues, and generating plant phase-ins.  
3

4 In October 1989, I joined the utility consulting firm of Kennedy and Associates as a  
5 Senior Consultant where my duties and responsibilities covered substantially the same  
6 areas as those during my tenure with the New Mexico Public Service Commission Staff.  
7 I became Manager in July 1992 and was named Director of Consulting in January 1995.  
8 Currently, I am a consultant with Kennedy and Associates.  
9

10 Exhibit \_\_\_(RAB-1) summarizes my expert testimony experience.  
11

12 **Q. On whose behalf are you testifying?**

13 A. I am testifying on behalf of the West Virginia Energy Users Group ("WVEUG").<sup>1</sup>  
14

15 **Q. What is the purpose of your Direct Testimony?**

16 A. The purpose of my Direct Testimony is to address the Application For Approval of 2017  
17 Infrastructure Replacement Program ("IRP") filed by West Virginia-American Water  
18 Company ("WVAW" or "Company"). In so doing, I will address relevant portions of the  
19 Application filed by the Company as well as the pre-filed Direct Testimony submitted by  
20 Company witnesses Jeffrey L. McIntyre and John S. Tomac.

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<sup>1</sup> For the purpose of this proceeding, WVEUG's membership consists of The Chemours Company and Dow Chemical Company.

1 Q. What are your conclusions and recommendations to the Public Service Commission  
2 of West Virginia ("Commission")?

3 A. I recommend that the Commission reject the Company's proposed IRP. The Commission  
4 adequately addressed the Company's ongoing commitments to infrastructure replacement  
5 in its last rate case, Case No. 15-0676-W-42T. In that proceeding, the Commission  
6 allowed the Company to include certain system replacement projects expected to be  
7 completed after the end of the Company's historical test year and before the rate effective  
8 period began ("the Transition Period"). This modification to the Commission's traditional  
9 practice of using an historical test year for ratemaking purposes recognized WVAW's  
10 unique circumstances and effectively addressed the Company's need for system  
11 improvements and replacements. In this proceeding, WVAW failed to demonstrate that  
12 its proposed IRP is reasonable and necessary.

13

14 The Company's filed IRP represents a radical overreach of the more modest IRP  
15 proposed by Staff witness Terry Eads in Case No. 15-06760-W-42T, which WVEUG  
16 also opposed in that case. The Company has so broadly defined investments that would  
17 qualify for its IRP that it would likely never need to file a rate case before the  
18 Commission again. The proposed IRP fails on several important points, which are as  
19 follows:

20

- 21
- WVAW failed to show that its proposed IRP is necessary.
  - WVAW's proposed categories of IRP-eligible facilities are overly broad and open
- 22
- 23 ended.

- 1           ● WVAW's proposed IRP fails to include an adequate review process that would  
2           ensure reasonableness of costs for eligible facilities.
- 3           ● WVAW's proposed amendment process for its IRP would turn the surcharge and  
4           included costs into moving targets.
- 5           ● WVAW has unreasonably proposed to collect costs associated with the projected  
6           average level of investment in IRP facilities between February 25 and December  
7           31, 2016. Essentially, this proposal allows the Company to collect future test year  
8           costs that the Commission rejected in the last rate proceeding.
- 9           ● WVAW's proposed IRP fails to provide adequate protections to customers from  
10          unreasonable costs and rate increases.

11  
12          The legion of defects associated with WVAW's proposed IRP warrants its outright  
13          rejection by the Commission. The Company's proposed IRP would result in a "real time"  
14          ratemaking arrangement that will supplant the current regulatory paradigm with a system  
15          that irreparably harms West Virginia customers.

16  
17          If the Commission chooses to accept the implementation of an IRP for WVAW, however,  
18          its proposed IRP should undergo a complete revision. Specifically, I recommend that the  
19          Commission incorporate the following principles and modifications into any IRP it may  
20          approve in this proceeding:

- 21  
22          1.       The IRP should be limited to a 2-year Pilot Program.

- 1           2.     IRP eligible facilities should be limited to smaller diameter mains and services  
2                     consistent with a recommendation made by Staff witness Mr. Fowler in Case No.  
3                     15-0676-W-42T.  
4
- 5           3.     IRP eligible facilities should be limited to non-revenue producing and non-  
6                     expense reducing plant that serves to replace existing plant.  
7
- 8           4.     Facilities extended to serve new customers in areas that are underserved or  
9                     unserved should be excluded from the IRP.  
10
- 11          5.     The yearly cap on IRP related rate increases from current authorized tariff rates  
12                     should be limited to 2.5%.  
13
- 14          6.     The cumulative cap on customer IRP related rate increases over currently  
15                     authorized tariff rates should be limited to 5%.  
16
- 17          7.     The yearly increase in WVAW's IRP eligible facilities should be limited to the  
18                     general rate of inflation as measured by the Consumer Price Index.  
19
- 20          8.     The return on equity for IRP eligible facilities should be reduced by one percent  
21                     from the Commission's last authorized return on equity. For the proposed Pilot  
22                     Program, the allowed return on equity for any IRP eligible facilities should be  
23                     8.75%.

1           9.     WVAW should be required to file a base rate proceeding within two years of IRP  
2                     implementation. At that time, the IRP rate should be reset to zero and all facilities  
3                     included in the IRP should be included in base rates.

4  
5           10.    The IRP revenue requirement should be collected using a fixed monthly charge.

6  
7     **WVAW Proposed IRP**

8  
9     **Q.     Please summarize WVAW's proposed IRP as contained in its Application and**  
10           **supporting Direct Testimony.**

11     **A.     The Company's proposed IRP is described beginning on page 4 of its Application.**  
12           **WVAW proposes to include seven categories of what it considers to be non-revenue**  
13           **producing, non-expense reducing utility plant in its IRP. The seven categories of eligible**  
14           **facilities are described on pages 6 and 7 of the Application.**

15  
16           The IRP would be implemented covering IRP plant placed into service from February 25,  
17           2016. WVAW stated it would invest approximately \$32.5 million in IRP facilities in  
18           2016 and 2017. Exhibit 2 to the Application contains the projected and budgeted IRP  
19           facilities through 2020.

20  
21           On page 9 of its Application, WVAW states that when IRP projects are completed the  
22           Company would submit a work order package for review by Staff and the Consumer  
23           Advocate Division ("CAD") for auditing purposes. Also on page 9, the Company

1 explains its reconciliation process in which the revenue requirement associated with the  
2 actual cost of IRP facilities would be compared with the revenue received from the "IRP  
3 Rate Component." Paragraph 18 on page 10 provides a description of WVAW's  
4 proposed IRP Rate Component. Costs recovered through the IRP Rate Component  
5 would include return on rate base, related income taxes, depreciation expense, state  
6 property taxes, and the West Virginia Business and Occupation ("B&O") tax.

7  
8 WVAW also seeks inclusion of a revenue requirement associated with the projected  
9 average level of investment in IRP Facilities between February 25 and December 31,  
10 2016. The Company claims that these costs should be included within the IRP scope "to  
11 bridge the gap in recovery between the current rate base cut-off period of February 24,  
12 2016 and the beginning of a full-year IRP period beginning January 1, 2017."  
13 Application, pp. 11, 12.

14  
15 The Application (Paragraph 32, page 15) also contains certain conditions on the  
16 Commission's approval of the IRP, including the relationship to base rate cases, an annual  
17 rate increase cap of 5%, a cumulative rate increase cap of 10%, and an earnings test.

18  
19 **Q. Should the Commission approve WVAW's proposed IRP?**

20 **A. No. WVAW's proposed IRP is unreasonable and should be rejected in its entirety.**

1 Q. In general terms, please explain why the Company's proposed IRP should be  
2 rejected.

3 A. As I stated in my Direct Testimony in Case No. 15-0676-W-42T, I am not in favor of  
4 automatic adjustment clauses such as the IRP, as a general matter. Automatic adjustment  
5 clauses that allow the pass-through of capital costs simply do not allow the requisite  
6 amount of regulatory scrutiny that a full rate proceeding does. In a rate case, the  
7 Commission, its Staff, and other parties have time to conduct a detailed examination and  
8 review all of the elements of a utility's revenue requirement to ensure that the costs  
9 ratepayers are required to pay are prudently incurred. WVAW's proposed IRP would  
10 enable the Company to pass through significant new costs without this regulatory scrutiny.  
11 Although the utility and its shareholders certainly benefit from increased cash flows from  
12 such automatic clauses, ratepayers are far less assured that costs subject to this treatment  
13 are prudently incurred. As a result, these surcharges effectively shift the risk of  
14 investment from the utility and its shareholders to ratepayers. The regulatory paradigm is  
15 in turn shifted such that the balance is skewed between providing the utility with a  
16 monopoly and protecting captive ratepayers; the upshot is that surcharges like this one  
17 favor the utility to the disadvantage of its customers.

18

19 Q. Let us now move to your specific conclusions with respect to WVAW's proposed  
20 IRP. To begin with, did WVAW make a proper showing that an IRP of the  
21 magnitude it is proposing is necessary?

22 A. No. It is important to keep in mind that the Commission just granted the Company a  
23 15.1% rate increase in its Order dated February 24, 2016, in Case No. 15-0676-W-42T.

1 In that Order, the Commission went beyond its traditional adherence to using an  
2 historical test year based on the facts and circumstances in that proceeding. The  
3 Commission approved inclusion of certain non-revenue producing additions in the  
4 Transition Period and established the Company's rate base at the beginning of the Rate  
5 Year. On page 26 of its Order, the Commission noted the following:

6 Based on the evidence presented in this case, establishing rate base at  
7 the beginning of the Rate Year is reasonable because inclusion of  
8 additional investment in rate base elements for the Transition Period  
9 (i) will provide a reasonable level of known and measurable rate base  
10 that will be used and useful and in service at the time the new rates  
11 authorized in this proceeding become effective, (ii) will provide a  
12 better matching of revenues, expenses and rate base present in the Rate  
13 Year than would adherence to a non-representative HTY approach,  
14 and (iii) will better mitigate the impact of regulatory lag than would  
15 AFFAC. WVAWC should cease recording AFFAC on the effective  
16 date of new rates authorized in this case.<sup>2</sup>

17  
18 In its Order, the Commission significantly expanded the manner in which costs and  
19 system investments are reflected in WVAW's rate base by including investments through  
20 the Transition Period. This Transition Period ran from January 2015 through  
21 February 29, 2016, a full 14 months after the end of the Company's 2014 historic test  
22 year. This expansion of rate recognition for non-revenue producing net plant essentially  
23 made WVAW whole with respect to infrastructure replacement investment through  
24 February of this year.

25  
26 WVAW failed to provide any evidence of financial need for the sort of expansive IRP it  
27 is proposing in this proceeding. In my opinion, the Commission's Order in the base rate  
28 case more than adequately reflected the Company's infrastructure replacement

---

<sup>2</sup> West Virginia-American Water Company, Case No. 15-0676-W-42T (Order entered Feb. 24, 2016) ("Base Rate Case Order"), p. 26.

1 requirements for the rate effective year of 2016.

2  
3 **Q. On pages 6 and 7 of his Direct Testimony, Mr. McIntyre described seven categories**  
4 **of investment that are to be included in the Company's IRP. Should all of these**  
5 **categories of investment be included in an IRP?**

6 **A. No.** All seven of the proposed investment categories are so broadly defined that they  
7 could include any and all future system investments by WVAW. In fact, nowhere in the  
8 investment descriptions provided by Mr. McIntyre do the words "infrastructure  
9 replacement" occur. An IRP should only include investments that replace existing  
10 infrastructure, such as replacement mains and services.

11  
12 Especially objectionable are the following categories of investment for proposed  
13 inclusion:

- 14 d. distribution mains and related facilities initially constructed  
15 under "shopping center agreements", etc.  
16  
17 e. facilities the acquisition or construction of which are  
18 recommended or required by the Commission, the West  
19 Virginia Bureau for Public Health, etc.  
20  
21 f. facilities that extend public water service to new customers in  
22 areas of the state that are unserved or underserved.  
23  
24 g. other facilities the costs of which the Commission may later  
25 include within the definition of IRP facilities.<sup>3</sup>  
26

27 Categories d., e., and g. are essentially "catch-all" categories that cover nearly every  
28 conceivable investment that WVAW may make in the future. Clearly, these proposed  
29 categories of investment have absolutely nothing to do with infrastructure replacement

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<sup>3</sup> Application, pp. 6-7.

1 and should be rejected by the Commission.

2  
3 Category f. should also be rejected. This definition was drawn from Senate Bill 390, a  
4 statute that does not apply to water utilities. I strongly recommend that the Commission  
5 reject language that would allow a water company to pass system expansion projects  
6 through an IRP.

7  
8 **Q. Does the Company's proposed IRP provide for a reasonable review process to**  
9 **ensure that eligible costs are prudently incurred?**

10 **A.** No. In fact, WVAW's proposed IRP completely lacks any mechanism for Commission  
11 review to determine if costs passed through the IRP have been prudently incurred.  
12 WVAW's Application, page 9, paragraph 14, discusses a work order package that the  
13 Company will submit when individual main replacement projects are completed. These  
14 work order packages would be submitted to Staff and CAD "for auditing purposes." Mr.  
15 Tomac describes a mechanism to compare actual costs incurred and revenues received in  
16 order to determine any potential over-recovery or under-recovery. Direct Testimony of  
17 John S. Tomac, page 3, line 16 through page 4, line 5. The Company's proposed IRP,  
18 however, fails to include a prudence review process. Simple auditing and revenue  
19 reconciliation cannot assure customers that the costs for which they are being charged  
20 through the IRP are reasonable, and such measures provide no vehicle for the input of  
21 intervenors beyond Staff and CAD.

1 Q. On page 8 of his Direct Testimony, Mr. McIntyre describes the Company's proposal  
2 to amend its IRP filing in certain circumstances. Should the Company be allowed to  
3 amend its filing in the manner described by Mr. McIntyre?

4 A. No. The type of amendment process described by Mr. McIntyre would turn its IRP filing  
5 into a moving target and place the Staff, CAD, and other parties at a disadvantage in  
6 terms of evaluating the reasonableness of additions to the Company's IRP filing after it  
7 has been filed. If WVAW needs to "replace a major facility that suffers an unexpected  
8 failure" or make "substantial investment in a category of IRP facilities that was not  
9 included in the earlier filing covering the current IRP calendar year," as described by Mr.  
10 McIntyre, then the Company is free to file a base rate case and/or a certificate of  
11 convenience and necessity case and include such facilities in that filing. The  
12 Commission should not allow the Company to make changes in its IRP filing after it has  
13 been filed.

14  
15 Q. On page 4 of his Direct Testimony, Mr. Tomac testifies that WVAW seeks to include  
16 investment in IRP facilities from February 25 through December 31, 2016. Should  
17 the Commission allow the Company to include this period in its proposed IRP?

18 A. Absolutely not. Mr. Tomac's proposal is an attempt to skirt normal regulatory lag  
19 between rate cases and to inappropriately fill a gap between the beginning of the Rate  
20 Year from the last base rate case and the implementation date of the proposed IRP.

1 Moreover, Mr. Tomac's proposal represents a back-door means of recovering future test  
2 year costs that the Commission Order rejected in the base rate case. The Commission  
3 stated in its Base Rate Case Order that allowing the Company to reflect certain costs  
4 through the Transition Period was a better match of revenues, expenses, and rate base for  
5 the Rate Year than would be achieved using an historical test year.<sup>4</sup> The Commission  
6 rejected the Company's fully projected future test year. Now in its IRP filing, the  
7 Company seeks to recover projected costs beyond the Transition Period. The  
8 Commission should reject the Company's attempt to recover investment from  
9 February 25 through December 31, 2016, in this proceeding.

10  
11 **Q. Do the proposed caps on yearly and cumulative rate increases adequately protect**  
12 **customers?**

13 **A.** No. As I stated previously, the Commission just ordered a 15.1% increase for WVAW  
14 customers this year. The Company now wants further increases through an accelerated  
15 IRP process that could increase rates by another 5% – 10% over the next few years.  
16 Given the impact from the last rate case, if the Commission decides to approve an IRP,  
17 then I recommend lower caps on yearly and cumulative rate increases. I will describe my  
18 proposal more fully in the next section of my Direct Testimony.

19  
20 In addition, as the Company acknowledged in response to CAD data request 01-23,  
21 attached as Exhibit\_\_\_(RAB-2), the 10% cap as proposed would likely never be reached.  
22 Thus, this cap does not provide ratepayers with any real protection, unless the Company  
23 was to attempt to include capital expenditures "over the average annual \$18.5 million

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<sup>4</sup> See Base Rate Case Order, p. 26.

1 amount" currently proposed for inclusion in the surcharge. With a cap set so high, there  
2 would be very little reason for the Company to ever need to seek a base rate case.  
3

4 **Recommended Revisions to WVAW's Proposed IRP**

5  
6 **Q. If the Commission decides to approve an IRP for WVAW, what are the main**  
7 **principles and elements that should be included?**

8 **A. I recommend that the following principles and elements be part of any IRP that the**  
9 **Commission approves for WVAW:**

- 10  
11 1. The IRP should be limited to an initial 2-year Pilot Program.  
12  
13 2. IRP eligible facilities should be limited to mains 3 inches in diameter and smaller  
14 and associated services. This recommendation is based on a recommendation  
15 made by Staff witness Fowler in Case No. 15-0676-W-42T.  
16  
17 3. IRP eligible facilities should be limited to non-revenue producing and non-  
18 expense reducing plant that serves to replace existing plant.  
19  
20 4. Facilities extended to serve new customers in areas that are underserved or  
21 unserved should be excluded from the IRP.  
22  
23 5. The yearly cap on IRP related rate increases from current authorized tariff rates

1           should be limited to 2.5%.

2

3           6.     The cumulative cap on customer IRP related rate increases over currently  
4           authorized tariff rates should be limited to 5%.

5

6           7.     The yearly increase in WVAW's IRP eligible facilities should be limited to the  
7           general rate of inflation as measured by the Consumer Price Index.

8

9           8.     The return on equity for IRP eligible facilities should be reduced by 1% from the  
10          Commission's last authorized return on equity. For this proposed Pilot Program,  
11          the allowed return on equity for any IRP eligible facilities should be 8.75%.

12

13          9.     WVAW should be required to file a base rate proceeding within two years of IRP  
14          implementation. At that time, the IRP rate should be reset to zero and all facilities  
15          included in the IRP should be included in base rates.

16

17          10.    The IRP revenue requirement should be collected using a fixed monthly charge.

18

19    **Q.     Please explain why the IRP should be limited to a 2-year Pilot Program.**

20    **A.**    A 2-year pilot IRP is a reasonable first step for the Commission, its Staff, the CAD, and  
21          other parties to gauge the effectiveness and workability of an IRP for WVAW. It is  
22          important to bear in mind that an IRP represents a significant change in the way WVAW  
23          has been regulated by the Commission. In the Company's last base rate case, the

1 Commission approved a significant change to its traditional ratemaking approach by  
2 including plant in rate base through the Transition Period. This decision significantly  
3 expanded WVAW's historical thirteen-month rate base by \$33.1 million. In its Base Rate  
4 Case Order, the Commission stated:

5 *The Commission is at a crossroads regarding the rate base treatment*  
6 *that will provide WVAWC a reasonable opportunity to meet these*  
7 *challenges and at the same time moderate the impact on customer*  
8 *rates. WVAWC has met its burden of proof regarding the inadequacy*  
9 *of the thirteen-month average HTY rate base approach in this case.*  
10 *The combination of declining per residential customer usage, little if*  
11 *any customer growth, and increased costly system replacements*  
12 *described in WVAWC and Staff testimony are unique to WVAWC*  
13 *and lead to the inescapable conclusion that the HTY approach, under*  
14 *current circumstances and operations for WVAWC, does not properly*  
15 *match revenues, expenses and rate base in the Rate Year. Further, the*  
16 *experimental AFFAC approach has provided minimal relief to*  
17 *WVAWC from regulatory lag and is not working as well as intended.*  
18 *The Commission believes it is time to cease the AFFAC approach and*  
19 *consider other alternatives.*

20 \* \* \*

21  
22  
23 Based on the evidence presented in this case, establishing rate base at  
24 the beginning of the Rate Year is reasonable because inclusion of  
25 additional investment in rate base elements for the Transition Period  
26 (i) will provide a reasonable level of known and measurable rate base  
27 that will be used and useful and in service at the time the new rates  
28 authorized in this proceeding become effective, (ii) will provide a  
29 better matching of revenues, expenses and rate base present in the Rate  
30 Year than would adherence to a non-representative HTY approach,  
31 and (iii) will better mitigate the impact of regulatory lag than would  
32 AFFAC. WVAWC should cease recording AFFAC on the effective  
33 date of new rates authorized in this case.<sup>5</sup>

34 Clearly, the Commission considered both the needs of WVAW and its customers in its  
35 decision to deviate from the historical test year and expand the Company's rate base in  
36 the last rate case. I recommend that the Commission continue a carefully considered

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<sup>5</sup> Base Rate Case Order, p. 26 (emphasis added).

1 approach in implementing an IRP for WVAW in this proceeding as well.

2  
3 WVAW's open-ended IRP proposal would continue indefinitely and could very well end  
4 future base rate cases for the Company. This is an unacceptable approach to ratemaking  
5 and one that cannot ensure just and reasonable rates for customers. Approving an IRP as  
6 a 2-year pilot program would enable the Company to include a certain level of necessary  
7 replacement projects, but with more limited regulatory review than would be afforded by  
8 a full rate proceeding. In my opinion, this strikes a reasonable balance between  
9 company, shareholder, and ratepayer interests.

10  
11 **Q. Please explain why IRP eligible facilities should be limited to mains 3 inches in**  
12 **diameter or less.**

13 **A.** Limiting IRP eligible facilities to smaller mains and services continues a careful and  
14 moderate approach to IRP implementation for WVAW and its customers. Consistent  
15 with my recommendation for a 2-year pilot IRP, limiting eligible facilities to smaller  
16 mains and services represents a balancing of company and customer interests.

17  
18 In Case No. 15-0676-W-42T, Staff witness Mr. Jonathan M. Fowler stated the following  
19 in his Direct Testimony:

20  
21 **Q: BASED ON YOUR REVIEW OF THE COMPANY'S**  
22 **INFRASTRUCTURE AS DISCUSSED ABOVE, WHAT ARE THE**  
23 **ENGINEERING DIVISION'S RECOMMENDATIONS AT THIS**  
24 **TIME?**

1           A:     The Engineering Division would encourage the Company to begin  
2 accelerating the replacement of their system, starting with the smaller  
3 diameter mains and services. While other aspects are in similar need of  
4 upgrade, this is where customers are most likely to see an immediate  
5 benefit in the form of improved service and reduced outages. In addition,  
6 this would provide an opportunity to make minor (i.e. low incremental  
7 cost) improvements in system hydraulics and performance; for instance  
8 upsizing small diameter mains by one nominal size (i.e. 2"-to-3" or 3"-to-  
9 4", etc.) may generally be accomplished at a very small incremental cost  
10 since labor, equipment, fuel and restoration costs are largely constant for  
11 smaller-size main construction and will not increase significantly as a  
12 result of sensible upsizing. (Such upsizing of smaller mains would  
13 improve system capacity, extend component life and enhance reliability at  
14 little incremental cost.)<sup>6</sup>

15           My conclusion based on Mr. Fowler's testimony is that only including smaller sized  
16 mains and associated services in the IRP would give ratepayers the most value for their  
17 money. This is very important considering the fact that ratepayers have just had a 15.1%  
18 rate increase approved by the Commission on February 24, 2016.

19  
20   **Q.     Why should IRP facilities be limited to non-revenue producing and non-expense**  
21 **reducing plant?**

22   **A.**     This condition is consistent with the regulatory goal of only including facilities in an IRP  
23 that replace existing infrastructure. The IRP should not be used for new facilities that  
24 expand the Company's rate base and total revenues. This type of plant should only be  
25 included in a base rate proceeding so that the Commission, Staff, CAD, and other parties  
26 can evaluate the reasonableness of the cost of such facilities as well as whether such  
27 investment is used and useful.

---

<sup>6</sup> Direct Testimony of Jonathan M. Fowler, Case No. 15-0676-W-42T, pp. 11-12.

1 Q. Please explain why facilities extended to serve unserved or underserved areas  
2 should be excluded from the IRP.

3 A. The basis for this condition is fundamentally the same as the basis for the prior condition  
4 regarding non-revenue producing and non-expense reducing plant. It is inappropriate to  
5 include the cost of facilities that expand the utility's system in an IRP. Such facilities  
6 should only be included in a base rate proceeding (and/or a certificate of convenience and  
7 necessity case), in which the Commission may properly evaluate the usefulness of such  
8 facilities as well as whether the costs were prudently incurred.

9

10 Q. Please provide the basis for the yearly and cumulative rate caps.

11 A. West Virginia customers need to be protected from excessive future rate increases that  
12 may flow through an IRP. As I mentioned earlier, the Commission just approved a  
13 15.1% increase in the Company's rates on February 24, 2016. Now, WVAW is filing for  
14 an IRP that includes even more yearly rate increases for its customers. The Company  
15 proposed a yearly cap of 5% and a total cumulative rate increase cap of 10%. These caps  
16 do not provide enough rate impact protection for customers considering the recently  
17 approved 15.1% increase.

18

19 In order to mitigate future rate increases to West Virginia ratepayers, I recommend that  
20 the yearly increase to the Company's tariff rates be limited to 2.5% and that the total  
21 cumulative increase be limited to 5%. This recommendation is 50% lower than the  
22 Company's recommended caps, which fail to provide sufficient rate mitigation for  
23 customers.

1 Q. Why should any yearly increase in IRP eligible plant be limited to the rate of  
2 inflation as measured by the Consumer Price Index?

3 A. This condition places a reasonable upper limit on the amount of IRP eligible plant that  
4 the Company can be allowed to place into an IRP. The Company's current proposal  
5 provides no such tangible limit on the yearly plant increases that can be included in the  
6 IRP. Including an upper limit on the yearly increases in IRP eligible plant serves as  
7 another rate mitigation tool for the Commission. It also serves as a limit on the amount  
8 of plant that would be subject to a lower level of regulatory scrutiny compared to a base  
9 rate proceeding.

10  
11 Q. Please explain why the return on equity for IRP eligible plant should be reduced by  
12 one percent from the current Commission authorized return on equity.

13 A. A reduction in the return on common equity for IRP eligible plant recognizes an  
14 important balancing of interests between shareholders and ratepayers. An IRP represents  
15 a shift in the current regulatory paradigm in favor of the utility's shareholders. IRP  
16 eligible plant will be receiving a current return as well as depreciation treatment in an  
17 expedited manner when compared with a traditional rate case. Such treatment is a clear  
18 benefit to shareholders, all other things held equal. Therefore, it is reasonable for the  
19 Commission to recognize a reduction in the return on equity for plant included in  
20 WVAW's IRP. A reduction of one percent from the Company's current authorized return  
21 on equity to 8.75% is a reasonable and conservative adjustment and assists in mitigating  
22 the rate impact to customers during the effective period of the IRP. Once WVAW files  
23 for a base rate case, plant included in the IRP should be rolled into its rate base and

1 receive a full return on equity.

2

3 **Q. Explain the basis for requiring WVAW to file a base rate case no later than two**  
4 **years after the implementation of the IRP.**

5 A. At some point, the Commission should assess the workability and reasonableness of an  
6 IRP within a base rate case proceeding. The Company's proposed IRP has no provision  
7 for any such review by the Commission. Conceivably, WVAW could stay out of a base  
8 rate case indefinitely, especially considering the expansive categories of plant that it  
9 intends to include in its proposed IRP. This may be an advantageous arrangement for  
10 WVAW and its shareholders, but it places the Commission and West Virginia ratepayers  
11 at an extreme disadvantage with respect to properly reviewing the reasonableness of the  
12 costs of IRP eligible plant. A requirement that WVAW file a rate case within two years  
13 of the implementation of an IRP ensures that the Commission, Staff, and other parties can  
14 review the reasonableness of cost recovery from ratepayers.

15

16 **Q. How should a review process be structured to ensure that costs passed through an**  
17 **IRP are prudent?**

18 A. In IRP filings submitted by the Company after the initial year of implementation,  
19 WVAW should be required to submit detailed actual cost information for IRP investment  
20 for the prior year. The Staff, CAD, and other parties should be allowed to conduct  
21 discovery on this information for purposes of determining whether costs were prudently  
22 incurred, and should be allowed to submit testimony challenging any imprudently  
23 incurred costs. The Commission, after a hearing, could disallow any imprudent

1 investment costs. Using this process will ensure that ratepayers are protected from unjust  
2 and unreasonable IRP investment costs.

3  
4 **Q. Do you agree with a volumetric charge to collect the costs associated with WVAW's**  
5 **IRP?**

6 **A.** No. Consistent with my Rebuttal Testimony in the Company's last rate case, the costs  
7 subject to collection through the proposed IRP are all fixed costs. As such, they do not  
8 vary with water consumption. Thus, they should not be collected in a volumetric charge.

9  
10 In addition, there are significant inter-class and intra-class inequities that are likely to  
11 occur using a volumetric rate. The problem is that high load factor customers will pay  
12 more than their fair share of costs and, conversely, lower load factor customers will pay  
13 less than their fair share. This is because high load factor customers use more water for a  
14 given level of demand than lower load factor customers.

15  
16 A simple example will illustrate how this inequity occurs. Assume two large industrial  
17 customers with a maximum daily demand of 34,000 gallons each. Further assume that  
18 Customer 1 uses an average of 27,200 gallons per day and that Customer 2 uses an  
19 average of 13,600 gallons per day. Both have the same maximum demand (34,000  
20 gallons), but Customer 1 has a higher load factor (80%) than Customer 2 (40%).

21  
22 In terms of cost responsibility, Customers 1 and 2 have the same responsibility for  
23 WVAWC's IRP costs because their peak demands are the same. But since Customer 2

1 consumes less water in relation to its maximum daily demand, it will pay less than its fair  
2 share of the Company's IRP costs due to the use of a volumetric charge. On the flip side  
3 of the coin, Customer 1 will pay more than its fair share due to its relatively higher Mcf  
4 consumption.

5  
6 If the Commission considers approval of an IRP, then costs should be collected through a  
7 fixed monthly charge per customer.

8  
9 **Q. How should the fixed monthly charge be structured?**

10 A. Since I recommend that only smaller sized mains be included in an IRP, my  
11 recommendation at this time is for the same fixed monthly charge to be applied to all  
12 customers. This is because replacement of smaller mains will most likely benefit lower  
13 consumption users compared to high volume users that take service from larger sized  
14 mains. I understand that this may not be the preferred approach for some customer  
15 classes, but it is the correct means for collecting these demand-related costs.  
16 Unfortunately, the Company employs a unified rate for all customers, so a division by  
17 customer class – which I am aware the Commission has adopted in other surcharge  
18 contexts – is not easily feasible, short of the Company developing class-specific rate  
19 schedules.

20  
21 **Q. Does this conclude your Direct Testimony?**

22 A. Yes.

**PUBLIC SERVICE COMMISSION  
OF WEST VIRGINIA  
CHARLESTON**

At a session of the PUBLIC SERVICE COMMISSION OF WEST VIRGINIA in the City of Charleston on the 2<sup>nd</sup> day of December 2016.

CASE NO. 16-0550-W-DSIC

WEST VIRGINIA-AMERICAN WATER COMPANY  
Petition for approval of the 2017 Infrastructure  
Replacement Program surcharge mechanism

**COMMISSION ORDER**

The Commission approves a Joint Stipulation and Agreement for Settlement that authorizes West Virginia-American Water Company (WVAWC) to implement an infrastructure replacement cost recovery mechanism.

**BACKGROUND**

WVAWC provides water utility service to about 168,000 customers in nineteen West Virginia counties.

In the Commission Order resolving the most recent base rate filing of WVAWC, the Commission directed WVAWC to seek Commission authorization in a separate proceeding for an infrastructure replacement program and surcharge mechanism if it wished to do so. West Virginia-American Water Co., Case No. 15-0676-W-42T, Commission Order February 24, 2015 (Rate Case Order) at 27.

On April 29, 2016, WVAWC filed an application for approval of a 2017 system improvement plan (Application). The Application also provided for an associated corresponding surcharge mechanism, or Distribution System Improvement Charge (DSIC).<sup>1</sup> The Application had several attachments, including the pre-filed direct testimonies of Jeffery L. McIntyre, Brett W. Morgan and John S. Tomac. The Application also included the WVAWC projected and budgeted investment in DSIC

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<sup>1</sup> The filings in this case have referred to an Infrastructure Replacement Plan, or IRP. To avoid confusion with the use of the term "integrated resource plan" in the context of electric utilities, the annual WVAWC filing will be referred to as its "Distribution System Improvement Charge" Plan, or "DSIC Plan," and the rate component under the DSIC Plan will be referred to as a "DSIC" or "DSIC Rate Component."



facilities through year 2020, monthly forecasts of 2016 and 2017 DSIC expenditures, detailed lists of 2016 and 2017 DSIC projects by service area, a map of the WVAWC districts and service areas, proposed rate components, and proposed tariff sheets with a proposed effective date of January 1, 2017. WVAWC represented that it modeled its application after Senate Bill 390 enacted during the 2015 legislative session, codified at W.Va. Code §24-2-1k, under which natural gas utilities may, upon Commission approval, recover specified infrastructure-related costs — incremental rate of return, related income taxes, depreciation and property taxes on the infrastructure replacement and expansion investment — through an expedited process.

WVAWC proposed to implement the DSIC Plan to invest approximately \$32.5 million for infrastructure replacement and system upgrades during 2016 and 2017. The DSIC Plan included the replacement of transmission and distribution mains, valves, hydrants, and services, but WVAWC also proposed to apply the DSIC to other categories of utility plant replacement, improvements and extensions of service in the future.

WVAWC proposed to recover costs associated with the investments through a separate rate component on customer bills, calculated as a percentage of the total monthly bill for service (comprised of both the minimum meter charge and the volumetric rate component). The DSIC rates proposed for 2016 and 2017 were identified in the Application. Under the rates filed in the Application, an average residential customer using 3,204 gallons per month, would pay an increase of \$0.89 monthly, representing a 1.90 percent rate increase in January 2017.

The Consumer Advocate Division (CAD), SWVA, Inc. (SWVA), West Virginia Energy Users Group (WVEUG), the Kanawha County Commission, Regional Development Authority (KCC RDA), and the City of Charleston (Charleston) all filed petitions to intervene in this case.

On June 7, 2016, Staff filed an Initial Joint Staff Memorandum recommending that the Commission provide notice of the filing and grant the pending petitions to intervene.

On June 8, 2016, CAD filed a Motion to Dismiss the Application on grounds that the West Virginia Legislature has asserted jurisdiction over accelerated infrastructure replacement programs by enacting Senate Bill 390 with respect to gas utilities in 2015, and House Bill 4435 with respect to electric utilities in 2016. CAD stated that the Legislature has not created an infrastructure recovery mechanism for water utilities. CAD argued that it would be unreasonable to treat water utilities differently from gas and electric utilities.

On June 21, 2016, WVAWC filed a response in opposition to the CAD Motion to Dismiss.

By Order entered on June 24, 2016, the Commission denied the CAD motion to dismiss, ordered WVAWC to provide public notice of the filing, and granted the pending petitions to intervene.

By Order issued July 22, 2016, the Commission adopted a procedural schedule, including a public comment and evidentiary hearing date, and ordered WVAWC to publish notice of the hearings. The Commission also suspended the tariff sheets filed with the Application until further order of the Commission.

By Order issued August 15, 2016, the Commission revised the hearing date for this proceeding to November 2, 2016, and set new briefing dates. On August 31, 2016, the Commission extended the pre-filed testimony due dates by one week.

On September 19, 2016, WVAWC filed Affidavits of Publication evidencing publication of the Notice of Filing in each of the counties in which WVAWC provides service. WVAWC also filed Affidavits of Publication evidencing publication of the Notice of Hearing.

On November 2, 2016, WVAWC filed a Joint Stipulation and Agreement for Settlement (Joint Stipulation) between WVAWC, Staff, and CAD (Stipulating Parties).

During the evidentiary hearing on November 3, 2016, the Commission admitted the Joint Stipulation into evidence as Joint Ex. 1. Although WVEUG, SWVA, KCC RDA, and Charleston did not execute the Joint Stipulation, they stated at the evidentiary hearing that they did not oppose the Joint Stipulation and that it would be reasonable for the Commission to approve and adopt the Joint Stipulation.

On November 30, 2016, WVAWC filed a proposed Order that had been circulated to all parties.

In reviewing this matter, the Commission considered the Application, the Joint Stipulation, the direct and rebuttal testimonies of all witnesses, the testimony and representations offered at the evidentiary hearing, and the proposed Order.

### DISCUSSION

WVAWC proposed a system improvement plan that included non-revenue producing, non-expense reducing investments in utility plant, as well as potential expansion projects approved by the Commission. Application at 5. As part of its initial filing, WVAWC proposed to recover costs associated with facilities placed into service from February 25, 2016, through the end of the 2017 calendar year, including the

incremental rate of return, related income taxes, depreciation and property taxes on the DSIC investment, as well as the West Virginia business and occupation tax. Id. at 10.

In the Joint Stipulation, the Stipulating Parties recommended that the Commission authorize a 2017 revenue increase of \$1,510,891, using the amounts and calculation methods shown in Attachment A to the Joint Stipulation. Joint Stipulation at ¶ 9(b); November 3, 2016 Hearing Transcript (Tr.) at 10. The Joint Stipulation urges that the 2017 revenue increase of \$1,510,891, calculated using the amounts and methods shown in Attachment A to the Joint Stipulation, is fair, reasonable and in the public interest.

The Stipulating Parties recommended that the Commission approve for DSIC rate recovery the WVAWC projected 2017 investments as set forth in Attachments B and C to Joint Stipulation. As compared with the projected 2017 investment proposed in the Application, Attachments B and C to the Joint Stipulation:

- a. Exclude all of the \$16,525,125 in 2016 investment initially proposed for recovery in the Application;
- b. Exclude the \$4 million in 2017 investment identified as “Weston to Webster Springs Interconnect” on Exhibits 2 and 3 of the Application (“WWS Project”) and rededicate that \$4,000,000 to additional 2017 main replacement;
- c. Add \$5 million in investment in main replacement (over and above the \$4 million rededicated above);
- d. Add \$7 million for the construction of two tanks near Amandaville (representing a combined 8 million gallons of storage) previously planned to reinforce the west end of the Kanawha Valley distribution system; and
- e. Reflect that approximately 76 percent of the 2017 DSIC investments proposed are dedicated to distributions mains, services, laterals, valves, and hydrants.

Joint Stipulation at ¶ 9(c); Tr. at 12-13.

The changes to the investment levels contemplated by the Joint Stipulation reduced the 2017 DSIC Rate Component revenue requirement by \$1,081,492, to \$1,510,891 from \$2,592,383 originally proposed in the Application. Joint Stipulation at ¶ 9(c); Tr. at 18. This represents an increase of 1.09 percent over current base rates, as compared with the 1.90 percent increase proposed in the Application. Joint Stipulation at ¶ 9(c). For an average residential customer, the monthly increase is reduced to \$0.52 from the \$0.89 increase proposed in the Application. Id. The Joint Stipulation

states that WVAWC will file future applications for DSIC recovery and true-up no later than July 1<sup>st</sup> of each year. Id. at ¶ 9(d).

To reach a settlement, the Stipulating Parties engaged in substantial compromise regarding the WVAWC DSIC investments. Mr. McIntyre testified that the removal of the 2016 investments and the WWS Project from the DSIC Plan were “major elements of achieving the settlement.” Tr. at 14. By excluding the 2016 investments, WVAWC will forego recovery of any earnings on those investments under the DSIC Plan but may seek to recover them in its next rate case. Id. Mr. McIntyre testified that although WVAWC agreed to exclude the WWS Project from the DSIC Plan, it anticipates filing a certificate case in the future. Tr. at 24. If approved, Mr. McIntyre noted that WVAWC may then seek rate recovery under the DSIC mechanism. Tr. at 24, 32.

WVAWC represented in the Joint Stipulation that it “recognizes that distribution system renewal and replacement is a significant priority and in the public interest” and that it “will continue to employ a process to identify and prioritize distribution system main replacement through the DSIC.” Joint Stipulation at ¶ 9(e). Mr. McIntyre also reiterated WVAWC’s commitment to main replacement at the hearing. Tr. at 15.

The Stipulating Parties agreed that the Commission should not establish distinct categories of utility investment eligible for DSIC rate recovery at this time. However, in future DSIC cases, parties may take a position on whether certain investments should be eligible for DSIC rate recovery or whether one or more distinct categories of utility investment eligible for DSIC rate recovery should be established. Joint Stipulation at ¶ 9(f); Tr. at 19-21.

The Stipulating Parties recommended that the Commission approve Original Sheet No. 26 and the various other tariff sheets to incorporate by reference Original Sheet No. 26, all substantially in the forms attached as Exhibit 10 to the Application, to be effective for service rendered on and after January 1, 2017. Joint Stipulation at ¶ 10.

WVAWC also agreed to include several consumer protections as part of its DSIC program. Joint Stipulation at ¶ 9(g); Tr. at 21-23. The protections address the DSIC program’s relationship to base rate cases, provide for annual and cumulative caps, and establish an earnings test. Id.

This was a difficult proceeding, and the Commission appreciates the efforts of the parties to reach a just and reasonable settlement. Stipulations can resolve cases in a prompt, fair, reasonable, cost effective and expedited fashion based on arms-length negotiations. Settlements can significantly reduce litigation costs for the benefit of all parties and the ratepayers.

The Commission must balance the interests of the parties, ratepayers and the State based on a review of all of the evidence, not just evidence submitted in favor of the Joint Stipulation. The full record in this case supports the DSIC and the associated DSIC Rate Component as being fair, reasonable and in the public interest. Accordingly, the Commission will adopt the Joint Stipulation attached to this Order in resolution of the issues presented in this case.

Each of the Stipulating Parties recommended that the Commission adopt the Joint Stipulation as being in the public interest. Joint Stipulation at ¶ 14. Mr. McIntyre testified at the hearing that the settlement was fair, reasonable, and in the public interest, and asked the Commission to accept it. Tr. at 25-26. Staff and CAD also recommended at the hearing that the Commission adopt the Joint Stipulation, indicating that it was fair and reasonable, in the public interest, and a result of substantial compromise. Tr. at 37, 43-44. Counsel for SWVA, WVEUG, Charleston, and KCC RDA stated that while they could not join the Joint Stipulation, the settlement was the result of negotiated compromise and that it would be reasonable for the Commission to adopt it. Tr. at 48-50.

#### FINDINGS OF FACT

1. On April 29, 2016, WVAWC filed for approval of a DSIC for 2017. Application at 1-21 & attachments.
2. WVAWC published notice of filing and notice of hearing in each of the counties where it provides service and provided evidence of proper notice to the Commission. September 19, 2016 and November 2, 2016 Affidavits of Publication Filings.
3. WVAWC filed the Joint Stipulation with the Commission. November 4, 2016 Filing. Joint Ex. 1.
4. The Stipulating Parties recommended that the Commission authorize WVAWC's 2017 DSIC revenue requirement in the amount of \$1,510,891. Joint Stipulation at ¶ 9(b).
5. The Stipulating Parties supported the Joint Stipulation as a reasonable resolution of this case. Joint Stipulation at ¶ 9.

### CONCLUSIONS OF LAW

1. The terms and conditions of the Joint Stipulation are just, reasonable and in the public interest.
2. The 2017 revenue increase of \$1,510,891, calculated using the amounts and methods shown in Attachment A to the Joint Stipulation, is fair, reasonable and in the public interest.
3. The Joint Stipulation properly balances the interests of WVAWC, its customers, and the State.

### ORDER

IT IS THEREFORE ORDERED that the Joint Stipulation attached to this Order as Appendix A is approved and adopted in full resolution of this case.

IT IS FURTHER ORDERED that WVAWC shall prepare and file, within fifteen days of the date of this Order, an original and six copies of its DSIC tariff sheet, to be effective for all services rendered on and after January 1, 2017, reflecting the approved DSIC Rate Component of each tariff schedule.

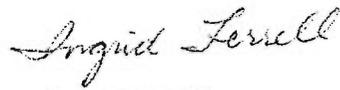
IT IS FURTHER ORDERED that the style of this case is revised to read "2017 Distribution System Improvement Charge" filing and the case identifier "P" in the case number of this proceeding is revised to "DSIC."

IT IS FURTHER ORDERED that the Executive Secretary of the Commission shall use the case identifier "DSIC" when docketing future DSIC filings by WVAWC.

IT IS FURTHER ORDERED that this case be removed from the Commission docket of active cases on entry of this Order.

IT IS FURTHER ORDERED that the Executive Secretary of the Commission serve a copy of this Order by electronic service on all parties of record who have filed an e-service agreement, by United States First Class Mail on all parties of record who have not filed an e-service agreement, and on Staff by hand delivery.

A True Copy, Teste,



Ingrid Ferrell  
Executive Secretary

JML/rm  
160550ce

PUBLIC SERVICE COMMISSION  
OF WEST VIRGINIA  
CHARLESTON

CASE NO. 16-0550-W-P

WEST VIRGINIA-AMERICAN WATER COMPANY

2017 Infrastructure Replacement Program

**JOINT STIPULATION AND AGREEMENT FOR SETTLEMENT**

Pursuant to W. Va. Code § 24-1-9(f) and Procedural Rule 13(d), West Virginia-American Water Company (“Company”), the Staff of the Public Service Commission of West Virginia (“Staff”), and the Consumer Advocate Division of the Commission (“CAD”) (collectively, the “Parties”) join in this Joint Stipulation and Agreement for Settlement (“Joint Stipulation”).<sup>1</sup>

In this Joint Stipulation, the Parties propose a comprehensive settlement of the Company’s pending application for approval of an infrastructure replacement cost recovery mechanism. The Parties recommend that the Commission approve the Joint Stipulation without modification, to approve a system improvement plan for the Company for 2017 and a corresponding 2017 Distribution System Improvement Charge (“DSIC”).<sup>2</sup>

---

<sup>1</sup> West Virginia Energy Users Group (“WVEUG”), SWVA, Inc. (“SWVA”), the City of Charleston (“City”), and the Kanawha County Commission, Regional Development Authority (“KCC RDA”), intervenors in this case, do not join in the Joint Stipulation but have indicated they will not oppose it.

<sup>2</sup> The filings in this case have referred to an Infrastructure Replacement Plan, or IRP. To avoid confusion with the use of the term “integrated resource plan” in the context of electric utilities, the Parties recommend that the Company’s annual filing be referred to as its “Distribution System Improvement Charge” Plan, or “DSIC Plan,” and the rate component under the DSIC Plan be referred to as a “DSIC” or “DSIC Rate Component.” In this Joint Stipulation, the Parties use these terms to refer to the program and charge recommended in this case, even where earlier filings used the “IRP” terms.

**Introduction and Procedural History**

1. In the Company's 2015 Rate Case, the Commission directed the Company "to seek authorization for a surcharge mechanism, if it chooses to do so," in a separate proceeding.

2. On April 29, 2016, the Company filed an Application ("Application") for approval of its 2017 Infrastructure Replacement Plan, supported by prefiled direct testimony and exhibits.

3. CAD, SWVA, WVEUG, the City, and KCC RDA filed Petitions to Intervene on May 11, 2016, June 3, 2016, June 6, 2016, June 23, 2016, and June 23, 2016, respectively.

4. In its June 24, 2016 Order, the Commission approved the petitions to intervene, dismissed a motion to dismiss filed by CAD on June 8, 2016, directed the Company to publish a notice of filing in each of the counties in which it provides service, and required the parties to submit a jointly-proposed procedural schedule.

5. By Commission Order issued July 22, 2016, the Commission adopted a procedural schedule, including public comment hearing and evidentiary hearing dates, and ordered the Company to publish notice of the hearings. The Commission also suspended the tariff sheets filed with the Application until further order of the Commission.

6. On August 15, 2016 the Commission issued a revised procedural schedule and directed the Company to publish a revised notice of hearings in each of the counties in which it provides service. The Commission again revised the procedural schedule in its August 31, 2016 Order.

7. The Parties filed the testimony of these witnesses:

Company: Jeffrey L. McIntyre, Brett W. Morgan, John S. Tomac, and John R. Wilde

Staff: Jonathan M. Fowler, David L. Pauley, and Terry R. Eads

CAD: Ralph C. Smith

WVEUG: Richard A. Baudino

City: Danny Jones

KCC: Dave Hardy

SWVA did not file testimony.

8. The Parties undertook an investigation of the Application and its various attachments, and the Staff and CAD filed data requests to clarify aspects of the filing. Based on their respective analyses of these materials, and after meetings and the exchange of various settlement proposals and counter-proposals, the Parties now recommend approval of the 2017 DSIC and implementation of the 2017 DSIC Rate Component, subject to the terms and conditions set forth in this Joint Stipulation.

Settlement Terms

9. The Parties agree and recommend that the Commission adopt the Joint Stipulation as a basis for its resolution of this case. The terms and conditions of the Joint Stipulation, each of which is an essential and integral element of a fair and reasonable resolution of this case in the public interest, are set forth below:

- a. The 2017 DSIC should be established to become effective January 1, 2017.
- b. The 2017 DSIC Rate Component revenue requirement calculation should be \$1,510,891, as set forth in a revised version of Schedules A through G of Exhibit 7 to the Application, attached to this Joint Stipulation as Attachment A.
- c. The Commission should approve for DSIC rate recovery the Company's projected 2017 investments as set forth in revised versions of Exhibit 7, "2017 SCEP," and Exhibit 4 to the Application, attached to this Joint Stipulation as Attachment B and Attachment C, respectively. As compared with the projected 2017 investment proposed in these Application exhibits, Attachments B and C to this Joint Stipulation:
  1. exclude all of the \$16,525,125 in 2016 investment initially proposed for recovery in the Application;
  2. exclude the \$4,000,000 in 2017 investment identified as "Weston to Webster Springs Interconnect" on Exhibits 2 and 3 of the Application ("WWS Project") and rededicate that \$4,000,000 to additional 2017 main replacement;
  3. add \$5,000,000 in investment in main replacement (over and above the \$4,000,000 rededicated above);

4. add \$7,000,000 for the construction of two tanks near Amandaville (representing a combined 8 million gallons of storage) previously planned to reinforce the west end of the Kanawha Valley distribution system; and
5. reflect that approximately 76% of the 2017 DSIC investment shall be dedicated to distributions mains, services, laterals, valves, and hydrants.

These changes increase the projected 2017 DSIC investment to \$28,994,235 from \$16,993,235. As compared with the 2017 DSIC rate base in the Application of \$18,371,825, the revised 2017 DSIC rate base is \$12,077,522. The Company commits to making this level of investment in 2017, but expects that its DSIC investment in future years will be more in line with the capital plan set forth in Exhibit 2 to the Application.

Attachments B and C to this Joint Stipulation also detail the \$9,000,000 in additional 2017 main replacement projects contemplated above (the \$4,000,000 rededicated amount in item (2) and the new \$5,000,000 amount in item (3)).

The change in investments covered by the 2017 DSIC reduces the 2017 DSIC Rate Component revenue requirement by \$1,081,492, to \$1,510,891 from \$2,592,383. This represents an increase of 1.09% over current base rates, as compared with the 1.90% increase proposed in the Application. For an average residential customer, the monthly increase is reduced to \$0.52 from the \$0.89 increase proposed in the Application.

- d. The Company will file future applications for DSIC recovery and true-up no

later than July 1<sup>st</sup> and include schedules in the format and substance of Attachments B and C, showing the level and detail of the proposed DSIC investment.

- e. The Company recognizes that distribution system renewal and replacement is a significant priority and in the public interest. The Company will continue to employ a process to identify and prioritize distribution system main replacement through the DSIC.
- f. At paragraph 9 of the Application, the Company proposed that a definition of "IRP Facilities" be established. The Parties now agree and recommend that at this time, the Commission should not establish distinct categories of utility investment eligible for DSIC rate recovery (or by omission, not eligible for it). In future DSIC cases, the Parties may take whatever positions they choose on whether a proposed investment should be eligible for DSIC rate recovery or whether one or more distinct categories of utility investment eligible for DSIC rate recovery should be established.
- g. The DSIC will be subject to the following consumer protections:
  - 1. Relationship to Base Rate Cases. At no point will there be (i) utility plant assets that are simultaneously included in base rates and a DSIC Rate Component or (ii) a base rate that provides or will provide the Company with recovery of revenues associated with the revenue requirement on investments for which an DSIC Rate Component provides or will provide simultaneous recovery (and vice versa). Calculations of utility plant in service and revenue requirements in each base rate case and annual DSIC filing will include appropriate adjustments to

ensure these outcomes do not occur. Notwithstanding these requirements, the Company may have a base rate case and a DSIC filing simultaneously pending before the Commission, and the pendency of one such case will not preclude or delay the Company's filing of the other or the Commission's adjudication of it.

2. **Annual Cap of 3.75%.** In each annual DSIC filing or amendment to an DSIC filing, the DSIC Rate Component proposed to be collected in the succeeding annual period (inclusive of the impact of any reconciliation scheduled for implementation during that period) will be limited to an amount that does not exceed three and three-quarters percent (3.75%) of the revenue requirement authorized in the most recent base rate case.
3. **Cumulative Cap of 7.5%.** In each annual DSIC filing or amendment to an DSIC filing, the DSIC Rate Component proposed to be collected in the succeeding annual period (inclusive of the impact of any reconciliation scheduled for implementation during that period) will be limited to an amount that, when combined with the percentage increase(s) implemented through previous DSIC filings since the most recent rate case, does not exceed seven and one-half percent (7.5%) of the revenue requirement authorized in the most recent base rate case.
4. **Earnings Test.** The Company will not be permitted to implement a DSIC Rate Component after an DSIC investment base reset following a base rate case order or, if an annual DSIC Rate Component is already in place, to increase the existing DSIC Rate Component with a subsequent calendar year's incremental projected investment in DSIC Facilities, if the Company's achieved return on

average equity investment, as reflected in its audited financial statements for the preceding calendar year prepared using generally accepted accounting principles and measured on a calendar year basis, exceeds the authorized return on common equity set in the Company's most recent base rate case. If one of these situations occurs, then the Company will still make its DSIC filing for purposes of maintaining the existing DSIC Rate Component (if any) and addressing any needed reconciliations of costs and revenues from previous years.

- h. If the Company wishes to include investment in the WWS Project in a future DSIC, it will first seek certification of the project under W. Va. Code §24-2-11. The mechanism for and timing of rate recovery for the WWS Project (whether through a DSIC, base rates, special project step rates, or otherwise) will be determined in the certificate proceeding.
- i. The Parties recommend that the Commission revise the style of this case as "2017 Distribution System Improvement Charge" filing and to substitute "DSIC" for "P" in the case number suffix. The Parties also recommend that the "DSIC" suffix be used in future Company DSIC filings.

10. The Parties agree and recommend that the Commission approve Original Sheet No. 26 and the various other tariff sheets to incorporate by reference Original Sheet No. 26, all substantially in the forms attached as Exhibit 10 to the Application, to be effective for service rendered on and after January 1, 2017.

**General Provisions**

11. The Parties support this Joint Stipulation and represent that each of its provisions acceptably resolves all issues raised in this case. Based on the record, the Parties recommend that the Commission accept this Joint Stipulation in resolution of this case.

12. The Parties represent that the Parties' pre-filed evidence and exhibits, as well as the testimony to be offered in sponsorship of this Joint Stipulation, is adequate to support the Joint Stipulation. The Parties ask that the pre-filed testimony and exhibits be admitted into the evidentiary record without the necessity of each witness's sponsorship or attendance at hearing.

13. This Joint Stipulation results from a review of all evidence and filings in this case, the Parties' analyses of the Application, exhibits, and testimony, and good faith negotiation. The Joint Stipulation is proposed to expedite and simplify the resolution of this case in the context of an overall settlement.

14. The Parties recommend that the Commission adopt this Joint Stipulation as being in the public interest, without adopting or recommending the adoption of any of the compromise positions set forth herein as ratemaking principles applicable to future regulatory proceedings, except as may otherwise be provided herein. The terms of this Joint Stipulation reflect a negotiated compromise among the Parties and do not establish a precedent on any matter other than as provided herein. Each component of the Joint Stipulation (including this paragraph) is integral to and inseparable from the others, and no Party advocates the Commission's resolution of any issue proposed in this Joint Stipulation other than in the context of its support for the Joint Stipulation as a whole. The Parties to the Joint Stipulation are free to

take whatever positions they deem appropriate in any future DSIC proceedings, and do not waive and questions of fact or law that were presented in this case.

15. This Joint Stipulation is subject to the Commission's acceptance and approval. It will be ineffective until and unless approved by the Commission in all of its material terms and without modification. If the Commission does not grant that approval, then the Parties reserve their rights to fully advocate their positions, unlimited by the terms of the Joint Stipulation.

WHEREFORE, the Parties respectfully recommend and request that the Commission make appropriate findings of fact and conclusions of law adopting and approving the Joint Stipulation in its entirety, including its attachments.

Dated and effective on November 2, 2016.

WEST VIRGINIA-AMERICAN WATER COMPANY

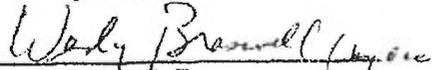
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STAFF OF THE PUBLIC SERVICE  
COMMISSION OF WEST VIRGINIA

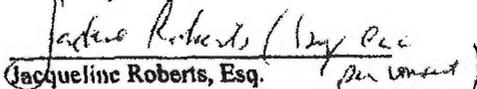
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Wendy Braswell, Esq. *(per O.C.)*  
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CONSUMER ADVOCATE DIVISION

*By Counsel*



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PUBLIC SERVICE COMMISSION  
OF WEST VIRGINIA  
CHARLESTON

CASE NO. 16-0550-W-P

WEST VIRGINIA-AMERICAN WATER COMPANY

2017 Infrastructure Replacement Program

CERTIFICATE OF SERVICE

I certify service of Joint Stipulation and Agreement for Settlement on November 3,  
2016, by United States First Class Mail, postage prepaid, as addressed:

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*Commission Staff*



Christopher L. Callas

## Attachment A

<b>WEST VIRGINIA AMERICAN WATER COMPANY</b> <b>CALCULATION OF PROPOSED IRP COMPONENT</b>
---

Exhibit JST-1  
Schedule A  
Settlement

<u>Line No.</u>	<u>Description</u>	<u>Schedule</u>	<u>2017 Amount</u>
1	Capital Additions	B	\$14,497,118
2	Accumulated Depreciation	E	(252,514)
3	Net Plant		<u>14,244,603</u>
4	ADIT	E	(132,817)
5	Depreciation Offset	D	(2,034,265)
6	Total Investment Base for the IRP		<u>\$12,077,522</u>
7			
8	Rate of Return on Investment Base	C	<u>7.310%</u>
9	Cost of Investments		\$882,867
10	Depreciation Expense	D	252,514
11	Property Tax		0
12	State Tax	F	0
13	FIT	F	<u>291,698</u>
14	Revenue Requirement before B&O Tax		\$1,427,079
15	Gross-up for B&O Tax (100% - 4.4%)		<u>95.60%</u>
16	Revenue Requirement		\$1,492,761
17	Gross-up factor for Uncollectible Expense (100%-1.1990%)		<u>98.80%</u>
18	Total Revenue Requirement		<u>\$1,510,891</u>
19			
20			
21	Allowed Revenues - Order:		
22	Metered Water Sales	G	\$136,393,303
23	Less: Sales for Resale	G	1,948,900
24	Add: Metered Sales for Resale	G	653,121
25	Add: Private Fire Service	G	<u>1,526,017</u>
26	Base Revenues for IRP Component		<u>\$136,623,541</u>
27			
28	IRP Component - 2017		1.09%

Attachment A

**ESTIMATED ANNUAL INVESTMENT FOR USE IN THE IRP COMPONENT**

Exhibit JST-1  
Schedule B  
Settlement

Line No.	Item	Capital Expenditures	
		Annual <u>2017 Stand Alone</u>	Average <u>2017</u>
1	T & D MAINS	\$18,060,975	\$9,030,488
2	HYDRANTS	799,679	399,840
3	STANDPIPES	7,000,000	3,500,000
4	SERVICES	3,133,581	1,566,791
		<u>\$28,994,235</u>	<u>\$14,497,118</u>

\* Please see 2017 SCEP tabs for details

## Attachment A

**COST OF CAPITAL**Exhibit JST-1  
Schedule C  
Settlement

Line No.	<u>Rate Order Capital Structure and Cost of Capital</u>		Weighted	With Tax
	<u>Weight</u>	<u>Rate</u>	<u>Rate</u>	<u>Gross-up 1/</u>
1	ST Debt	6.470%	0.560%	0.036%
2	LT Debt	47.502%	5.870%	2.788%
3	Preferred Stock	0.190%	8.930%	0.028%
4	Common Equity	<u>45.838%</u>	9.750%	<u>7.354%</u>
		100.000%		
5	ROR		7.31%	10.206%
6	1/			
7	State Tax Rate (STR)		0.065	
8	Federal Tax Rate (FTR)		0.35	
9	Gross up factor = $1 / \{(1-STR) - \{(1-STR) \times FTR\}}$			1.6454

## Attachment A

Exhibit JST-1  
Schedule D  
Settlement

DEPRECIATION EXPENSE - 2017						
Line No.		T&D Mains	Hydrants	Services	Standpipes	Total
1	Total Projected Capital Expenditure	\$18,060,975	\$799,679	\$3,133,581	\$7,000,000	\$28,994,235
2	Average Investment	\$9,030,488	\$399,840	\$1,566,791	\$3,500,000	\$14,497,118
3	Annual Depreciation Rates	1.230%	1.830%	1.680%	3.080%	
4		\$111,075	\$7,317	\$26,322	\$107,800	\$252,514
Depreciation Expense Included in Case No. 15-0676-W-42T						
5	Order Depreciation Expense	\$2,493,529	\$117,524	\$695,276	\$762,200	\$4,068,529
6	Offset Year One - 2017					<u>\$2,034,265</u>

Attachment A

Exhibit JST-1  
Schedule E  
Settlement

BOOK AND TAX DEPRECIATION - 2017

Line No.	Asset Description	Additions	Book Depreciation Rate	Average Book Depreciation Expense	Tax Additions	Tax Depreciation Rate
1	T&D Mains	\$18,060,975	1.230%	\$111,075		
2	Hydrants	799,679	1.830%	7,317		
4	Standpipes	7,000,000	3.080%	107,800		
5	Services	3,133,581	1.680%	26,372		
6		\$28,994,235		\$252,514	\$24,178,299	2.00%
7						\$483,566

Projected increase in ADIT Liability - 2016 35.00%

(\$4,227,485)

Bonus Tax Depreciation 2017

Bonus Tax Depreciation (State Tax Basis Calc. 100% opt)	Tax Depreciation	Total Tax Depreciation	Tax Timing Difference
\$12,089,146	\$241,783	\$12,330,929	(\$12,078,413)

ADIT Analysis

Per Schedule F, Taxable Loss due to bonus depreciation  
Current Tax to move to Deferred Tax due to NOL  
ADIT limited to income before taxes.

2017 Cumulative \$291,698  
Projected ADIT \$135,127  
(\$286,713) (\$132,817)

ADIT Provisions Formula

Total Days	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
365	31	28	31	30	31	30	31	31	30	31	30	31	365
	0.91781	0.84110	0.75616	0.67397	0.58904	0.50685	0.42192	0.33699	0.25479	0.16986	0.08767	0.00274	2017 ADIT
	\$22,310	\$30,446	\$18,361	\$16,383	\$14,319	\$12,321	\$10,415	\$8,192	\$6,194	\$4,129	\$2,131	\$67	\$135,127

## Attachment A

Exhibit JST-1  
Schedule F  
Settlement

<b>CALCULATION OF FEDERAL AND STATE INCOME TAXES</b>
--

### FEDERAL INCOME TAX

Line No.	Description	2017
1	Investment Base for IRP	\$12,077,522
2	Rate of Return	7.310%
3	Return on Rate Base	<u>\$882,867</u>
4	Adjustments	
5	Interest Expense	(341,142)
6	Temporary Deductions	<u>(12,078,415)</u>
7	Federal Taxable Income	(\$11,536,690)
8	Federal Tax Rate	35%
9	Current Federal Tax	<u>(\$4,037,841)</u>
10	Add Deferred Federal Tax @ 35%	4,227,445
11	Total Federal Tax	<u>\$189,604</u>
12	Gross-up Federal Income Tax (Line 11/65%)	<u>\$291,698</u>
13	Interest Expense	
14	Investment Base for IRP	\$12,077,522
15	Weighted Cost of Debt	<u>2.82%</u>
		\$341,142

### STATE INCOME TAX

16	Federal Taxable Income	(\$11,536,690)
17	Gross-up Federal Tax	<u>291,698</u>
18	State Taxable Income	(\$11,244,992)
19	Tax Gross-up Rate (100.0 - 6.50)	<u>0.935</u>
20	Gross-up Taxable	<u>(\$12,026,729)</u>
21	State Tax Amount (Line 19 less Line 17)	<u>(\$781,737)</u>
22	Negative State Tax - Use zero	<u>\$0</u>
23	Deferred Tax Asset - NOL	\$4,037,841
24	Cumulative Balance	\$4,037,841

\* Note: Line 9 Current Federal Tax is a negative number and as a result a deferred tax asset will be charged for this amount.

Attachment A

OTHER WATER UTILITY BILL CLASS

JST Exhibit -1  
Schedule G  
Page 2 of 2  
Settlement

Line No.	Description	Per-Books			Going Level			Order		
		Billing Determinants	Rates Effective October 11, 2013	Revenues	Billing Determinants	Rates Effective October 11, 2013	Revenues	Billing Determinants	Rates Effective February 23, 2016	Revenues
6	5/8-inch meter	13	\$23	\$302	12	\$23.20	\$278.00	12	\$27	\$321
7	3/4-inch meter		23.20	0		23.20	0		26.72	0
8	1-inch meter		56.86	0		56.86	0		65.46	0
9	1 1/2-inch meter		112.94	0		112.94	0		129.99	0
10	2-inch meter	36	180.29	6,851	36	180.29	6,490	36	207.51	7,470
11	3-inch meter		337.38	0		337.38	0		388.32	0
12	4-inch meter		561.79	0		561.79	0		646.62	0
13	6-inch meter	12	1,122.83	13,474	12	1,122.83	13,474	12	1,292.38	15,509
14	8-inch meter		1,796.10	0		1,796.10	0		2,067.31	0
17	1,500 gallons	623			584			584.4		
18	Next 23,500 gallons	11,090	1.02911	11,413	10,285	1.02911	10,584	10,285.0	1,185.26	12,190
19	Next 870,000 gallons	323,053	0.67159	216,959	298,503	0.67159	200,472	298,503.0	0.77300	230,743
20	Next 8,100,000 gallons	707,870	0.51578	365,105	651,700	0.61578	336,134	651,700.0	0.58366	386,888
21	All over 9,000,000 gallons		0.36353			0.36353			0.04184	
22	Subtotal	1,042,636		\$514,104	961,072		\$507,432	961,072.4		\$653,121
26	Add Aqua Water	2,441,300	\$0.2490	\$607,864	2,441,300	\$0.2490	\$607,864	2,441,300	\$0.2490	\$607,884
29	Add Hurricane	67,616	0.2000	13,523	120,000	0.2000	24,000	120,000	0.2000	24,000
30	Add Lavolette	2,223,270	0.1640	364,616	2,223,270	0.1640	364,616	2,223,270	0.1640	364,616
31	Add Jane Lew	571,265	Various	193,834	571,265	0.3390	193,659	571,265	0.3390	193,659
32	Add Lincoln	79,399	0.2130	16,912	495,871	0.2130	105,621	495,871	0.2130	105,621
34	Less: Corrections and Allowances									
35	Total Per Bill Analysis	6,425,486		\$1,807,873	6,812,779		\$1,863,211	6,812,779		\$1,948,900
36	Correction Factor			0.9999550			1.0000003			1.0000003
37	Per Books			\$1,807,511			\$1,863,212			\$1,948,901

Attachment A

Exhibit JST-1  
Schedule H  
Settlement

<b>Depreciation Offset</b>
----------------------------

Line No.	Item	Year	Investment Type	Amount	IRP%
1	<b>T &amp; D MAINS</b>				
2		2017	IRP	18,060,975	
3		2017	Non-IRP	5,583,509	
4				23,644,484	76.39%
5					
6	Order Depreciation Expense - 15-0674-WS-D				\$3,264,398
7	Offset Amount				2,493,529
8					
9					
10					
11	<b>HYDRANTS</b>				
12		2017	IRP	799,679	
13		2017	Non-IRP	121,500	
14				921,179	86.81%
15					
16	Order Depreciation Expense - 15-0674-WS-D				\$135,380
17	Offset Amount				117,524
18					
19					
20					
21	<b>SERVICES</b>				
22		2017	IRP	3,133,581	
23		2017	Non-IRP	1,520,240	
24				4,653,821	67.33%
25					
26	Order Depreciation Expense - 15-0674-WS-D				\$1,032,586
27	Offset Amount				695,276
28					
29					
30	<b>STANDPIPES</b>				
31		2017	IRP	7,000,000	
32		2017	Non-IRP	0	
33				7,000,000	100.00%
34					
35	Order Depreciation Expense - 15-0674-WS-D				\$762,200
36	Offset Amount				762,200

# Attachment A

WV American Water  
 1028 28,994,235

		2017											
		A	B	A x C + D		E	A - B - F + I		A - B - D - E - G		F - H - J	I * Rate	
		In-Srv CapEx	Mon-Taxable Advances & Contributions	In-Srv CapEx Net of Advances & Contributions	Bldgs, Land, & Intangibles	Repairs	Adds Net of Repairs	Eligible for Bonus	Bonus @ 50%	Remaining Addis Basis after Bonus Deduct:	Regular Deprec	Regular Deprec	YR 2
1028	WV American Water	28,994,235	28,994,235	28,994,235	4,815,542	24,178,293	24,178,293	24,178,293	12,089,146	12,089,146	241,783	483,566	

Note that the repairs % is based on an 8 year average including the 2015 tax return adjustment

# Attachment B

SHEET NO. 7  
2017 RFP

STRATEGIC CAPITAL EXPENDITURE PLAN  
PROCEDURE  
Investment Recovery Program  
West Virginia

2017 RFP (Investment) Worksheet

Project Title	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10	Period 11	Period 12	Total 2017 CAPER Amount
<b>RECOVERING PROJECTS</b>													
B West - Regional Region - Interstate Span	\$27,480	\$16,000	\$345,300	\$658,000	\$1,266,000	\$1,253,500	\$1,315,000	\$1,487,000	\$1,641,200	\$878,200	\$527,900	\$227,500	\$9,180,000
C West - Regional Region - Interstate Span	\$24,000	\$13,300	\$307,000	\$582,000	\$1,179,000	\$1,203,000	\$1,265,000	\$1,419,000	\$1,570,000	\$992,000	\$647,000	\$254,000	\$9,661,000
D Hydrants, Tanks and Reservoirs - Projected	48,000	40,000	17,000	37,000	137,700	1,000	5,000	0	0	0	0	0	286,700
E Domestic Water Treatment - Projected	207,000	297,700	254,500	284,700	268,000	6,200	8,200	72,000	64,000	47,244	80,300	50,300	788,070
Total Recovering Projects	\$770,000	\$502,000	\$943,800	\$1,542,000	\$3,890,700	\$3,480,200	\$3,556,200	\$4,169,000	\$4,285,200	\$2,462,444	\$1,354,200	\$404,800	\$13,904,070
<b>CENTRALLY SPONSORED PROJECTS</b>													
<b>Total Centrally Sponsored Projects</b>													
<b>INVESTMENT PROJECTS</b>													
<b>Total Investment Projects</b>													
<b>Total 2017 CAPER Amount</b>													

Project Title	Period 1	Period 2	Period 3	Period 4	Period 5	Period 6	Period 7	Period 8	Period 9	Period 10	Period 11	Period 12	Total 2017 CAPER Amount
<b>RECOVERING PROJECTS</b>													
B West - Regional Region - Interstate Span	\$27,480	\$16,000	\$345,300	\$658,000	\$1,266,000	\$1,253,500	\$1,315,000	\$1,487,000	\$1,641,200	\$878,200	\$527,900	\$227,500	\$9,180,000
C West - Regional Region - Interstate Span	\$24,000	\$13,300	\$307,000	\$582,000	\$1,179,000	\$1,203,000	\$1,265,000	\$1,419,000	\$1,570,000	\$992,000	\$647,000	\$254,000	\$9,661,000
D Hydrants, Tanks and Reservoirs - Projected	48,000	40,000	17,000	37,000	137,700	1,000	5,000	0	0	0	0	0	286,700
E Domestic Water Treatment - Projected	207,000	297,700	254,500	284,700	268,000	6,200	8,200	72,000	64,000	47,244	80,300	50,300	788,070
Total Recovering Projects	\$770,000	\$502,000	\$943,800	\$1,542,000	\$3,890,700	\$3,480,200	\$3,556,200	\$4,169,000	\$4,285,200	\$2,462,444	\$1,354,200	\$404,800	\$13,904,070
<b>CENTRALLY SPONSORED PROJECTS</b>													
<b>Total Centrally Sponsored Projects</b>													
<b>INVESTMENT PROJECTS</b>													
<b>Total Investment Projects</b>													
<b>Total 2017 CAPER Amount</b>													

Investments included in RFP  
Hydrants, Tanks and Reservoirs - Projected  
Domestic Water Treatment - Projected  
Services

Total (Excludes Tank Replacements not included in this sheet)

Attachment C

PROJECT INFORMATION		Estimated Project Cost			Existing Pipe	
Serial	Project Name	Proposed Length (ft)	Proposed Diameter (Inches)	Proposed Estimated Cost	Existing Length (ft)	Existing Diameter
281-WV-0000000	Upper Woods Dr (RHS) with 2" PVC	340	2"	\$31,696	340	4"
281-WV-0000000	Upper Woods Dr (LHS) with 2" PVC	530	2"	\$48,753	530	4"
281-WV-0000000	South High to Business St (RHS) with 2" PVC	570	2"	\$100,123	570	4"
281-WV-0000000	South High to Business St (LHS) with 2" PVC	410	2"	\$82,478	410	4"
282-WV-0000000	Frederick Ct	600	6"	\$39,000	600	6"
282-WV-0000000	Rhode Harmon Rd - Northwest Rd to Richards Rd	4,300	6"	\$279,540	4,300	6"
282-WV-0000000	Richards Rd to Richards Rd	2,100	6"	\$84,120	2,100	6"
282-WV-0000000	Richards Rd to Richards Rd	2,863	12"	\$297,732	2,863	6" to 10"
282-WV-0000000	Richards Rd to Richards Rd	1,000	6"	\$153,400	1,000	6" to 10"
282-WV-0000000	Richards Rd to Richards Rd	500	6"	\$58,920	500	6" to 10"
282-WV-0000000	Richards Rd to Richards Rd	1,400	2"	\$114,720	1,400	4"
282-WV-0000000	Richards Rd to Richards Rd	2,000	2"	\$188,500	2,000	4"
282-WV-0000000	Richards Rd to Richards Rd	3,600	8"	\$897,500	3,600	4"
282-WV-0000000	Richards Rd to Richards Rd	400	12"	\$28,000	400	6" to 10"
282-WV-0000000	Richards Rd to Richards Rd	1,500	6"	\$58,500	1,500	6" to 10"
282-WV-0000000	Richards Rd to Richards Rd	950	6"	\$42,944	950	6"
282-WV-0000000	Richards Rd to Richards Rd	800	6"	\$39,010	800	6"
282-WV-0000000	Richards Rd to Richards Rd	500	2"	\$27,300	500	4"
282-WV-0000000	Richards Rd to Richards Rd	1,100	6"	\$65,067	1,100	4"
282-WV-0000000	Richards Rd to Richards Rd	2,200	6"	\$325,000	2,200	6" to 10"
282-WV-0000000	Richards Rd to Richards Rd	0	34"	\$87,750	0	6" to 10"
282-WV-0000000	Richards Rd to Richards Rd	1,200	6"	\$185,195	1,200	4"
283-WV-0000000	Richards Rd to Richards Rd	4,500	6"	\$301,750	4,500	4"
283-WV-0000000	Richards Rd to Richards Rd	2,000	2"	\$117,000	2,000	4"
283-WV-0000000	Richards Rd to Richards Rd	2,700	2"	\$221,130	2,700	4"
283-WV-0000000	Richards Rd to Richards Rd	400	6"	\$51,400	400	4"
283-WV-0000000	Richards Rd to Richards Rd	1,800	6"	\$111,800	1,800	6" to 10"
283-WV-0000000	Richards Rd to Richards Rd	1,600	12"	\$83,200	1,600	6" to 10"
283-WV-0000000	Richards Rd to Richards Rd	1,200	12"	\$54,000	1,200	6" to 10"
283-WV-0000000	Richards Rd to Richards Rd	3,000	2"	\$175,500	3,000	4"
283-WV-0000000	Richards Rd to Richards Rd	2,894	2"	\$289,900	2,894	4"
283-WV-0000000	Richards Rd to Richards Rd	3,100	8"	\$390,000	3,100	6" to 10"
283-WV-0000000	Richards Rd to Richards Rd	400	2"	\$15,600	400	4"
283-WV-0000000	Richards Rd to Richards Rd	400	2"	\$30,600	400	4"
283-WV-0000000	Richards Rd to Richards Rd	400	2"	\$20,600	400	4"
283-WV-0000000	Richards Rd to Richards Rd	1,200	2"	\$70,200	1,200	4"
283-WV-0000000	Richards Rd to Richards Rd	3,300	2"	\$193,050	3,300	4"
283-WV-0000000	Richards Rd to Richards Rd	1,300	2"	\$76,050	1,300	4"
283-WV-0000000	Richards Rd to Richards Rd	8,000	6"	\$459,348	8,000	4"
283-WV-0000000	Richards Rd to Richards Rd	1,600	6"	\$80,000	1,600	4"
283-WV-0000000	Richards Rd to Richards Rd	1,600	6"	\$80,000	1,600	4"
283-WV-0000000	Richards Rd to Richards Rd	3,000	6"	\$154,700	3,000	4"
283-WV-0000000	Richards Rd to Richards Rd	3,000	6"	\$280,000	3,000	4"
283-WV-0000000	Richards Rd to Richards Rd	2,400	6"	\$124,800	2,400	4"
283-WV-0000000	Richards Rd to Richards Rd	1,000	6"	\$50,000	1,000	4"
283-WV-0000000	Richards Rd to Richards Rd	1,100	6"	\$57,000	1,100	4"



Attachment C

RP LINE B - MAINS REPLACED / RESTORED		PROJECT INFORMATION		Project Name		Estimated Project Cost		Existing Pipe	
District	Project Name	Proposed Length (ft)	Proposed Diameter (inches)	Estimated Cost	Decade Installed	Existing Length (ft)	Existing Diameter	Existing Material	Existing Material
2811-WV-Bluestone	Central Drive (Rep. with 2" PVC)	500	2"	\$42,500	1940 thru 1978	500	2"	2" Cast Iron	2" Cast Iron
2812-WV-Bluestone	River to Oak Street (Rep. with 2" PVC)	1,824	2"	\$69,160	1920 thru 1948	1,824	2"	2" Cast Iron	2" Cast Iron
2814-WV-Bluestone	Wheeler Ave (Rep. with 2" PVC)	369	2"	\$33,934	1920 thru 1978	369	2"	2" Cast Iron	2" Cast Iron
2821-WV-Bluestone	Grassy Branch - Engineered to R119	4,800	2"	\$378,398	1940 thru 1959	4,800	2"	2" Cast Iron	2" Cast Iron
2822-WV-Bluestone	Union to Rockledge	1,800	2"	\$60,000	1940 thru 1959	1,800	2"	2" Cast Iron	2" Cast Iron
2823-WV-Bluestone	Laurelwood - Rockledge Rd. Reuse Harmon to Baker's Hill	1,150	2"	\$30,000	1940 thru 1978	1,150	2"	2" Cast Iron	2" Cast Iron
2824-WV-Bluestone	Phonon - Sumner, From Barn to Burnside Est.	1,200	2"	\$36,000	1940 thru 1959	1,200	2"	2" Cast Iron	2" Cast Iron
2825-WV-Bluestone	Main Street - Oak Hill	1,472	2"	\$147,200	1940 thru 1959	1,472	2"	2" Cast Iron	2" Cast Iron
2826-WV-Bluestone	Keller Ave	265	2"	\$26,500	1940 thru 1959	265	2"	2" Cast Iron	2" Cast Iron
2827-WV-Bluestone	Monroe to Main St Over's	0	0"	\$0	1940 thru 1959	0	0"	0"	0"
2828-WV-Bluestone	Wright Major Ave. Tie Over's	0	0"	\$0	1940 thru 1959	0	0"	0"	0"
2829-WV-Bluestone	Johnson Street Tie Over's	0	0"	\$0	1940 thru 1959	0	0"	0"	0"
2830-WV-Bluestone	Park Drive / Ardmore Drive	0	0"	\$0	1940 thru 1959	0	0"	0"	0"
2831-WV-Bluestone	South Ave / Station Ave Tie Over's	0	0"	\$0	1940 thru 1959	0	0"	0"	0"
2832-WV-Bluestone	2nd street and 4th street	0	0"	\$0	1940 thru 1959	0	0"	0"	0"
2833-WV-Bluestone	Burr St to Summers Go Home	2,407	2"	\$180,540	1920 thru 1955	2,407	2"	2" Cast Iron	2" Cast Iron
2834-WV-Bluestone	Club Circle - Club House to Lane Drive	2,236	2"	\$167,700	1920 thru 1955	2,236	2"	2" Cast Iron	2" Cast Iron
2835-WV-Bluestone	Fayette Pike	1,540	2"	\$115,500	1940 thru 1959	1,540	2"	2" Cast Iron	2" Cast Iron
2836-WV-Bluestone	Gains Street Tie Over's	0	0"	\$0	1940 thru 1959	0	0"	0"	0"
2837-WV-Bluestone	3rd Ave & Bangs Drive Tie Over's	0	0"	\$0	1940 thru 1959	0	0"	0"	0"
2838-WV-Bluestone	Big Tye Road to Rocky Fork Road	0	0"	\$0	1940 thru 1959	0	0"	0"	0"
2839-WV-Bluestone	Rt 622 to Church	6,000	2"	\$480,000	1940 thru 1959	6,000	2"	2" Cast Iron	2" Cast Iron
2840-WV-Bluestone	High Street - St Albans	6,000	2"	\$480,000	1940 thru 1959	6,000	2"	2" Cast Iron	2" Cast Iron
2841-WV-Bluestone	Vine Street, SC	1,300	2"	\$104,000	1940 thru 1959	1,300	2"	2" Cast Iron	2" Cast Iron
2842-WV-Bluestone	Park Ave. SC	900	2"	\$72,000	1940 thru 1959	900	2"	2" Cast Iron	2" Cast Iron
2843-WV-Bluestone	Cedar Drive, Coles Lines	300	2"	\$24,000	1940 thru 1959	300	2"	2" Cast Iron	2" Cast Iron
2844-WV-Bluestone	Barbours Lane, Buffalo	3,200	2"	\$256,000	1940 thru 1959	3,200	2"	2" Cast Iron	2" Cast Iron
2845-WV-Bluestone	North Park	1,000	2"	\$80,000	1940 thru 1959	1,000	2"	2" Cast Iron	2" Cast Iron
2846-WV-Bluestone	Central Avenue	1,900	2"	\$152,000	1940 thru 1959	1,900	2"	2" Cast Iron	2" Cast Iron
2847-WV-Bluestone	1400 Big Spring Valley Ct	2,850	2"	\$228,000	1940 thru 1959	2,850	2"	2" Cast Iron	2" Cast Iron
2848-WV-Bluestone	Water St	610	2"	\$48,800	1920 thru 1959	610	2"	2" Cast Iron	2" Cast Iron
2849-WV-Bluestone	North Alley of Chases St	600	2"	\$48,000	1920 thru 1959	600	2"	2" Cast Iron	2" Cast Iron
2850-WV-Bluestone	5th Ave W, 11th to 13th Street	1,400	2"	\$112,000	1920 thru 1959	1,400	2"	2" Cast Iron	2" Cast Iron
2851-WV-Bluestone	1180 block Adams Ave	550	2"	\$44,000	1920 thru 1959	550	2"	2" Cast Iron	2" Cast Iron
2852-WV-Bluestone	McCullough, York, Weston & Union	2,100	2"	\$168,000	1920 thru 1959	2,100	2"	2" Cast Iron	2" Cast Iron
2853-WV-Bluestone	1900 block Jackson Ave	600	2"	\$48,000	1920 thru 1959	600	2"	2" Cast Iron	2" Cast Iron
2854-WV-Bluestone	900 block 12th St	400	2"	\$32,000	1920 thru 1959	400	2"	2" Cast Iron	2" Cast Iron
2855-WV-Bluestone	2018 - Forester Ave, from Lynn St to Branch St	2,000	2"	\$160,000	1920 thru 1959	2,000	2"	2" Cast Iron	2" Cast Iron
2856-WV-Bluestone	2018 - Chestnut Drive	1,542	2"	\$123,360	1920 thru 1959	1,542	2"	2" Cast Iron	2" Cast Iron
2857-WV-Bluestone	Hill Street	300	2"	\$24,000	1920 thru 1959	300	2"	2" Cast Iron	2" Cast Iron
2858-WV-Bluestone	2018 - N. alley of Washington Ave. between 24th St to 24th St	590	2"	\$47,200	1920 thru 1959	590	2"	2" Cast Iron	2" Cast Iron
2859-WV-Bluestone	Marion Ave, 18th St W to 20th St W	660	2"	\$52,800	1920 thru 1959	660	2"	2" Cast Iron	2" Cast Iron
2860-WV-Bluestone	Forest Rd, from Grand Blvd to Sandalwood	1,100	2"	\$88,000	1920 thru 1959	1,100	2"	2" Cast Iron	2" Cast Iron
2861-WV-Bluestone	Rural Ave to Branch St	325	2"	\$26,000	1920 thru 1959	325	2"	2" Cast Iron	2" Cast Iron
2862-WV-Bluestone	Revere Park	4,000	2"	\$320,000	1920 thru 1959	4,000	2"	2" Cast Iron	2" Cast Iron
2863-WV-Bluestone	Revere Hill	312	2"	\$24,960	1920 thru 1959	312	2"	2" Cast Iron	2" Cast Iron
2864-WV-Bluestone	Osborne Tie Over's	0	0"	\$0	1920 thru 1959	0	0"	0"	0"
2865-WV-Bluestone	Madison & Central Court Tie Over's	0	0"	\$0	1920 thru 1959	0	0"	0"	0"
2866-WV-Bluestone	Tie-over's Levee Creek	0	0"	\$0	1920 thru 1959	0	0"	0"	0"
2867-WV-Bluestone	Le-Croix Reach to Higgins	0	0"	\$0	1920 thru 1959	0	0"	0"	0"
2868-WV-Bluestone	Rebecca & Babcock Ave	684	2"	\$54,720	1920 thru 1959	684	2"	2" Cast Iron	2" Cast Iron
2869-WV-Bluestone	Smith Creek	1,300	2"	\$104,000	1920 thru 1959	1,300	2"	2" Cast Iron	2" Cast Iron
2870-WV-Bluestone	Rebecca & Pkg. Crossing across Guyanades River	280	2"	\$22,400	1920 thru 1959	280	2"	2" Cast Iron	2" Cast Iron
2871-WV-Bluestone	Shaw Avenue, Minerva	775	2"	\$62,000	1920 thru 1959	775	2"	2" Cast Iron	2" Cast Iron
2872-WV-Bluestone	Proposa St, Harlan	1,300	2"	\$104,000	1920 thru 1959	1,300	2"	2" Cast Iron	2" Cast Iron
2873-WV-Bluestone	233 Maple Avenue	450	2"	\$36,000	1920 thru 1959	450	2"	2" Cast Iron	2" Cast Iron
2874-WV-Bluestone	Waver Street	500	2"	\$40,000	1920 thru 1959	500	2"	2" Cast Iron	2" Cast Iron
2875-WV-Bluestone	Harlan Street/Harlan	500	2"	\$40,000	1920 thru 1959	500	2"	2" Cast Iron	2" Cast Iron
		71,765		\$5,900,001		71,765			

# MOODY'S

## INVESTORS SERVICE

### Rating Action: Moody's downgrades American Water and American Water Capital Corp. to Baa1 from A3; outlooks stable

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01 Apr 2019

#### Approximately \$6.3 billion of long-term debt affected

New York, April 01, 2019 -- Moody's Investors Service ("Moody's") downgraded the long-term Issuer Rating of American Water Works Company, Inc. (American Water) and the senior unsecured debt issued by its financing vehicle American Water Capital Corp. (AWCC) to Baa1 from A3 reflecting a consolidated financial profile that will continue to weaken over the next 12-18 months. Moody's also affirmed AWCC's P-2 short-term commercial paper rating. The outlooks for both companies are stable.

#### RATINGS RATIONALE

"American Water's financial profile is declining due to debt-funded capital spending and growing shareholder dividends amidst near-term cash flow pressures from tax reform" said Ryan Wobbrock, Vice President -- Senior Credit Officer. "These trends will push the ratio of funds from operations (FFO) to net debt to around 14% at the same time that structural subordination of holding company debt has increased, with approximately 25% of total debt at the holding company" added Wobbrock.

The financial profile of the company has steadily declined since 2014 with free cash flow deficits and debt issuance having outpaced cash flow growth, as the company took on nearly \$6.5 billion of capital spending. For example, free cash flow deficits have grown at a compound annual growth rate (CAGR) of around 62%, debt has grown at over 9% CAGR and FFO at roughly a 6% CAGR. For most of this time, the company was benefitting from bonus depreciation, which resulted in no cash tax payments. However, 2017 federal tax reform undid these benefits, which has also contributed in key ratios declining, such as funds from operations (FFO) to net debt dropping from 18% in 2014 to 16% in 2018 and retained cash flow (RCF) to net debt falling from 15% in 2014 to just above 12% in 2018.

Over the next 12-18 months, we expect these ratios to be around 14% and 10%, respectively, as the company spends around \$1.7 billion in capital investments, pays a dividend of about \$350 million and generates about \$1.4 billion in funds from operations on a last twelve month basis. These are below the grid scoring ranges outlined for A rated companies in our Regulated Water Utilities rating methodology. American Water is not planning any equity issuance over the next five years to help fund over \$8.0 billion of capital spending and dividend growth of about 10% per annum.

The financial decline has come despite improved cost recovery provisions across American Water's regulatory footprint, including several infrastructure riders and trackers that make cost recovery more certain and reduce regulatory lag, which support the company's stable outlook. The strong regulatory support for operating and capital expenditure cost recovery continues to be a qualitative benefit for the company, since we estimate that over 60% of annual capex is placed into rate base each year.

American Water's Baa1 unsecured credit profile is underpinned by its market position as the largest US investor-owned water utility holding company and strong regulatory and operational diversity across 16 states.

#### Factors that could lead to an upgrade

American Water could be upgraded if consolidated FFO to net debt were to return to levels consistently above 15%. Reduced holding company leverage and the improved credit quality of its two primary subsidiaries in Pennsylvania and New Jersey would also help to provide ratings lift.

#### Factors that could lead to a downgrade

FFO to net debt or retained cash flow to net debt around 12% and 7%, respectively, could place downward pressure on American Water's rating. Similarly, continued growth in holding company leverage or any materially adverse regulatory developments or operational set-backs could also lead to a downgrade.



Downgrades:

..Issuer: American Water Capital Corp.

.... Issuer Rating, Downgraded to Baa1 from A3

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3

..Issuer: American Water Works Company, Inc.

.... Issuer Rating, Downgraded to Baa1 from A3

..Issuer: Berks County Industrial Development Auth., PA

....Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

..Issuer: California Pollution Control Financing Auth.

....Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

..Issuer: Illinois Development Finance Authority

....Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

..Issuer: Illinois Finance Authority

....Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

..Issuer: Indiana Finance Authority

....Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

..Issuer: MARICOPA COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY, AZ

....Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

..Issuer: Owen (County of) KY

....Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

Outlook Actions:

..Issuer: American Water Capital Corp.

....Outlook, Changed To Stable From Negative

..Issuer: American Water Works Company, Inc.

....Outlook, Changed To Stable From Negative

Affirmations:

..Issuer: American Water Capital Corp.

....Senior Unsecured Commercial Paper, Affirmed P-2

The principal methodology used in these ratings was Regulated Water Utilities published in June 2018. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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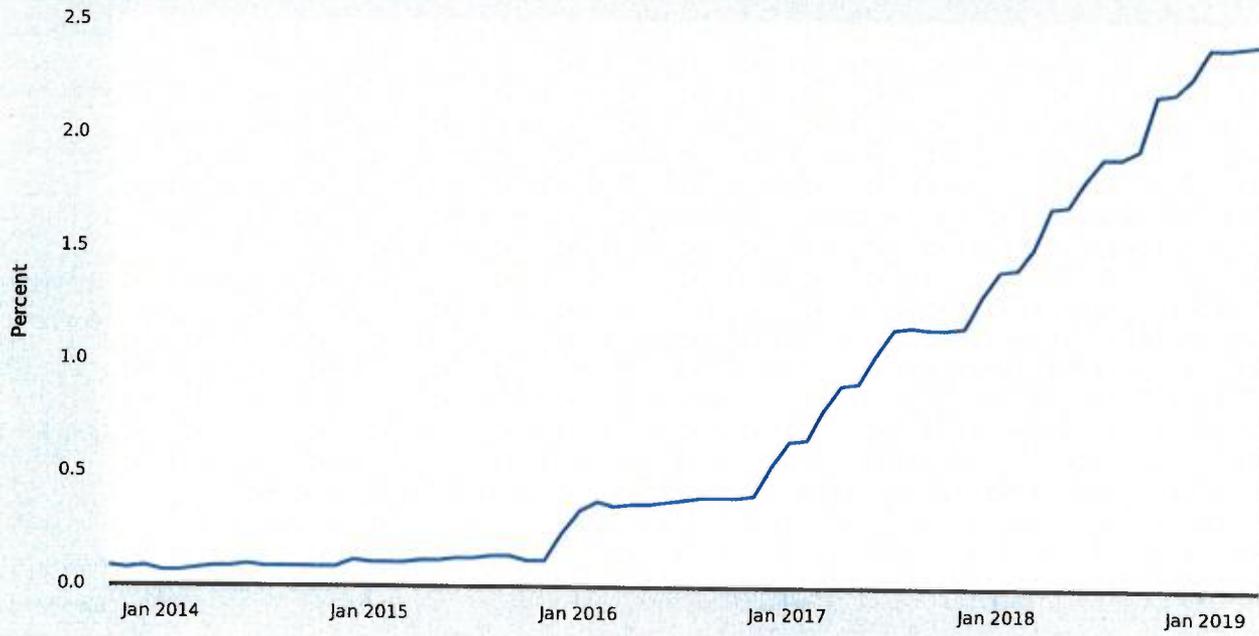
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**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

Kentucky Industrial Utility Customers, Inc.	)	
	)	
Complainant	)	
	)	
v.	)	Case No. 2018-00035
	)	
Kentucky Power Company	)	
	)	
Defendant	)	

**TESTIMONY OF  
MATTHEW A. HORELED  
ON BEHALF OF KENTUCKY POWER COMPANY  
IN SUPPORT OF THE SETTLEMENT AGREEMENT**

**SETTLEMENT TESTIMONY OF  
MATTHEW A. HORELED  
ON BEHALF OF  
KENTUCKY POWER COMPANY  
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

**CASE NO. 2018-00035**

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**SETTLEMENT TESTIMONY OF  
MATTHEW A. HORELED  
ON BEHALF OF KENTUCKY POWER COMPANY  
BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY**

**I. INTRODUCTION**

1 **Q. PLEASE STATE YOUR NAME AND POSITION WITH KENTUCKY POWER**  
2 **COMPANY.**

3 A. My name is Matthew A. Horeled. My position is Director of Regulatory Services,  
4 Kentucky Power Company. My business address is 855 Central Avenue, Suite 200,  
5 Ashland, Kentucky 41101.

6 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**  
7 **BUSINESS EXPERIENCE.**

8 A: I received a Bachelor of Arts, Honors degree in History from Loyola University Chicago  
9 in May 2001, a Master of Business Administration degree with a concentration in  
10 Finance from Loyola University Chicago in August 2004, and a Juris Doctorate from  
11 Valparaiso University School of Law in May 2005.

12 I began my utility industry career with American Electric Power Service  
13 Corporation in September 2007 as a Risk & Insurance Management Analyst with  
14 responsibilities for managing numerous insurance programs. I transferred to the  
15 Corporate Planning and Budgeting Department in April 2010 as a Financial Analyst with  
16 emphasis on operating company forecasts. In that role, I prepared and reviewed short-  
17 and long-term forecasts for Kentucky Power and Indiana Michigan Power (“I&M”) as  
18 well as monthly analyses of budget to actual variances. In April 2014, I was promoted to  
19 Financial Analyst Principal. In March 2015, I transferred to I&M as Regulatory Analysis

1 and Case Manager for I&M. In that role, I was responsible for the supervision,  
2 preparation, and filing of rate and regulatory matters in Indiana and Michigan. In  
3 February 2017, I transferred and was promoted to Director of Business Operations  
4 Support for Kentucky Power with responsibility for all corporate budgeting, financial  
5 management, and continuous improvement for the company. In April 2018, I assumed  
6 my current position as Director of Regulatory Services for Kentucky Power. I am  
7 responsible for the supervision and direction of Kentucky Power's Regulatory Services  
8 Department, which has responsibility for all rate and regulatory matters.

9 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY**  
10 **PROCEEDINGS?**

11 A. Yes, I have submitted testimony before the Indiana Utility Regulatory Commission in  
12 Cause No. 38702-FAC72; Cause No. 38702-FAC73; Cause No. 38702-FAC74; Cause  
13 No. 43775 OSS-6; and Cause No. 44511-SPR1.

14 **Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS WHICH LED TO THE**  
15 **SETTLEMENT AGREEMENT THAT IS BEING SUBMITTED FOR**  
16 **CONSIDERATION AND APPROVAL BY THE COMMISSION?**

17 A. Yes. I participated in the April 10, 2018 informal conference at which settlement was  
18 discussed and an agreement in principle with the complainant, Kentucky Industrial Utility  
19 Customers, Inc., was reached. In addition, I have been involved through counsel in the  
20 subsequent discussions regarding documentation of the settlement. The Settlement  
21 Agreement is attached as EXHIBIT MAH-S1.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

2 A. My testimony summarizes the settlement process leading to the agreement. I explain and  
3 support the terms of the Settlement Agreement as well as demonstrate why the terms of  
4 the Settlement Agreement will produce fair, just, and reasonable rates in connection with  
5 the issues before the Commission in this case. In this regard, I discuss the importance of  
6 amortizing the Company's excess unprotected accumulated deferred income taxes  
7 ("ADIT") over an 18-year period. I also identify the settlement issues addressed by  
8 Company Witnesses Kelly and Vaughan in testimony filed today in this case.

## II. THE PROCEEDINGS

9 **Q. PLEASE DESCRIBE THE EVENTS LEADING TO THE SETTLEMENT**  
10 **AGREEMENT.**

11 A. President Trump signed the Tax Cut and Jobs Act ("Tax Act") on December 22, 2017.  
12 The Tax Act reduced the maximum federal corporate income tax rate from 35 percent to  
13 21 percent effective January 1, 2018. Among its effects on Kentucky Power Company  
14 was to reduce the Company's current federal income tax expense. It also resulted in the  
15 creation of excess ADIT.

16 On December 21, 2017, Kentucky Industrial Utility Customers, Inc. filed a  
17 complaint with the Commission against the four Kentucky investor-owned electric  
18 utilities. The complaint asked the Commission to reduce the rates of the four defendants  
19 to reflect the reduction of the utilities' current federal income tax expense and the  
20 amortization of any excess ADIT. In its January 18, 2018 order in the Company's base  
21 rate case, Case No. 2017-00179, the Commission reduced the Company's Commission-  
22 adjusted annual revenue requirement, and the rates based on that revenue requirement, to

1 reflect the reduction in the Company's current federal corporate income tax expense as a  
2 result of the Tax Act. The Commission reserved for what eventually became this case  
3 any further reduction of the Company's revenue requirement (and rates) as a result of the  
4 amortization of the excess ADIT resulting from the Tax Act. By orders entered January  
5 25, 2018, the Commission severed the claims against the individual utilities. This case  
6 was established to resolve KIUC's claims against Kentucky Power regarding the  
7 amortization of the excess ADIT and resulting rate reduction flowing from the Tax Act.

8 **Q. ARE THERE ANY INTERVENORS IN THIS CASE?**

9 A. Yes. In addition to the Company and KIUC, the Attorney General is a party to this case.

10 **Q. HAS DISCOVERY BEEN TAKEN IN THIS CASE?**

11 A. Yes. Data requests were served on Kentucky Power by Staff, KIUC, and the Attorney  
12 General. The Company filed its responses on April 12, 2018.

13 **Q. ARE FURTHER PROCEEDINGS SCHEDULED IN THIS CASE?**

14 A. The current procedural schedule provides for the filing of simultaneous testimony on  
15 April 27, 2018. Kentucky Power is filing this testimony in support of the Settlement  
16 Agreement with KIUC in fulfillment of that requirement. The schedule also provides for  
17 another round of discovery to be filed on May 8, 2018. Responses to that second round  
18 of discovery are due May 18, 2018.

19 **Q. HAVE KENTUCKY POWER, KIUC, AND THE ATTORNEY GENERAL MET  
20 TO CONSIDER SETTLEMENT IN THIS CASE?**

21 A. Yes, the parties, along with Staff, met at the Commission offices on April 10, 2018 to  
22 address settlement of KIUC's claims against Kentucky Power. Subsequently, KIUC and  
23 Kentucky Power executed the Settlement Agreement. The Attorney General, who is the

1           only other party to this case, was offered the opportunity to join the settlement but is not  
2           joining at this time.

### III. THE SETTLEMENT AGREEMENT

3   **Q.   DOES THE SETTLEMENT AGREEMENT REPRESENT THE COMPLETE**  
4   **SETTLEMENT BETWEEN THE COMPANY AND KIUC OF THE REMAINING**  
5   **ISSUES RAISED BY KIUC IN ITS COMPLAINT?**

6   A.   Yes.  There are no agreements or understandings regarding the issues pending on  
7       rehearing that are not reflected in the Settlement Agreement.  The agreements and terms  
8       in the Settlement Agreement represent the sum total of the give and take of the KIUC and  
9       Kentucky Power.  Further, there are no agreements nor understandings with the Attorney  
10      General or any other non-party relating to the subject matter of the issues pending on  
11      rehearing.

12 **Q.   IS THE COMMISSION STAFF A PARTY TO THE SETTLEMENT**  
13 **AGREEMENT?**

14 A.   No.  Commission Staff attended the April 10, 2018 informal conference but made clear  
15      that it could not be a party to any agreement, that it was not speaking for the  
16      Commission, and that its participation in no way would bind the Commission to the  
17      agreement.

### IV. THE TERMS OF THE SETTLEMENT AGREEMENT

18 **Q.   PLEASE DESCRIBE THE PRINCIPAL TERMS OF THE SETTLEMENT**  
19 **AGREEMENT.**

20 A.   The Settlement Agreement contains the following substantive provisions:

- 21       •   The Settlement Agreement provides for the return to Kentucky Power's customers  
22       of the estimated \$175,272,905 in retail excess ADIT for the Company's

1 generation and distribution functions. The estimated excess ADIT will be  
2 amortized over specified periods and the resulting credit will appear on  
3 customers' bills as a billing line item. The \$175,272,905 is the Company's  
4 current estimate of the total ADIT to be credited through this proceeding.

- 5 ● Kentucky Power currently estimates that the total retail excess "protected" ADIT  
6 for the Company's generation and distribution functions is \$82,226,674. The  
7 Settlement Agreement, in conformity with the requirements of federal law,  
8 provides that the Company's excess "protected" excess ADIT will be amortized  
9 over the remaining life of the assets using the Average Rate Assumption Method  
10 ("ARAM") beginning January 1, 2018.
- 11 ● Kentucky Power currently estimates that the total retail excess "unprotected"  
12 ADIT for the Company's generation and distribution functions is \$93,046,231.  
13 The Settlement Agreement provides that the Company's excess "protected"  
14 ADIT will be amortized over an 18-year period beginning January 1, 2018.
- 15 ● The excess ADIT will be flowed back to customers through a Federal Tax Cut  
16 Credit that will appear as a billing line item.

17 A. The Allocation Of Total Excess Generation And Distribution Function  
18 ADIT Between Protected And Unprotected ADIT.

19 **Q. WHAT ARE PROTECTED AND UNPROTECTED EXCESS ADIT, AND WHY IS**  
20 **THE ALLOCATION OF THE TOTAL EXCESS ADIT BETWEEN THE TWO**  
21 **CLASSES IMPORTANT?**

22 A. Company Witness Kelly addresses the differences between the two types of excess ADIT  
23 in his testimony. For purpose of the Settlement Agreement, the important differences are  
24 those resulting from the differing rules for flowing back excess protected ADIT and  
25 excess unprotected ADIT to customers. Under federal law, excess protected ADIT is  
26 required to be flowed back to customers over the estimated remaining book life of the  
27 related assets as calculated in accordance with ARAM. Because the amortization is tied  
28 to the estimated remaining life of specific assets, the excess protected ADIT is not flowed  
29 back ratably. Company Witness Kelly currently estimates that the excess protected  
30 ADIT will be flowed back to customers over an approximately 50-year period. Excess

1 unprotected ADIT, by contrast, may be flowed back to customers ratably over a period  
2 determined by the Commission.

3 **Q. ARE THERE ADVERSE CONSEQUENCES TO FAILING TO FLOW BACK**  
4 **PROTECTED EXCESS ADIT IN ACCORDANCE WITH ARAM?**

5 A. Yes. Company Witness Kelly addresses those consequences, and the resulting higher  
6 costs to customers, resulting from failing to flow back excess protected ADIT in  
7 accordance with federal law.

B. The Calculation Of The Federal Tax Cut Credit

8 **Q. HAS THE COMPANY CALCULATED THE FEDERAL TAX CUT CREDIT TO**  
9 **BE PROVIDED TO CUSTOMERS?**

10 A. Yes. The calculation for 2018, 2019, and 2020 is provided as Attachment 2 to the  
11 Settlement Agreement. Company Witness Vaughan describes in his testimony the  
12 methodology used to calculate the federal tax rate credit to be provided to customers  
13 through the amortization of excess ADIT resulting from the Tax Act. By way of  
14 summary:

15 (a) A separate per kWh federal tax cut rate credit is calculated for the  
16 Company's residential and non-residential customers;

17 (b) If approved by the Commission, the federal tax cut rate credits will begin  
18 July 1, 2018. The twelve months of rate credit for 2018 will be provided over the final  
19 six months of 2018.

20 (c) Beginning in 2019, the residential class federal tax cut credit will be  
21 "shaped" to provide a higher credit to residential customers during the winter heating  
22 months (the billing months of January, February, March, and December).

1 (d) The federal tax cut credit will appear as a billing line item on the  
2 customers' bills.

3 **Q. WHY IS THE COMPANY PROPOSING TO “SHAPE” THE FEDERAL TAX**  
4 **CUT RATE CREDIT FOR ITS RESIDENTIAL CUSTOMERS?**

5 A. Kentucky Power's service territory includes a higher than average incidence of  
6 residential customers who employ electric resistance heating. Many of these customers  
7 face high electric bills during the winter heating season. By shaping the credit to provide  
8 approximately 75 percent of the credit during the winter heating season the Settlement  
9 Agreement aids these customers when their need for a rate credit is greatest. Many non-  
10 residential customers, by contrast, do not face the same sort of elevated electric bills  
11 during the winter heating season.

12 **Q. WHEN DOES THE FEDERAL TAX CUT RATE CREDIT TERMINATE?**

13 A. The credit will continue until the effective date of rates established in the Company's  
14 next general rate case. Absent the extraordinary circumstances identified in paragraph  
15 5(c) of the Settlement Agreement in Case No. 2017-00179, this means the credit will  
16 continue until at least the first cycle of the January 2021 billing cycle.

17 **Q. HAS THE COMPANY PREPARED THE FEDERAL TAX CUT RATE CREDIT**  
18 **TARIFF?**

19 A. Yes. It is attached as Exhibit 1 to EXHIBIT MAH-S1 (the Settlement Agreement).

20 C. The Reasonableness Of The 18-Year Period To Amortize Kentucky  
21 Power's Excess Unprotected ADIT.

22 **Q. EXPLAIN WHY THE SETTLEMENT AGREEMENT PROPOSES TO**  
23 **AMORTIZE THE COMPANY'S EXCESS UNPROTECTED ADIT OVER AN 18-**  
24 **YEAR PERIOD?**

1 A. Each dollar of the federal tax cut credit reduces the Company's cash flow by a dollar  
2 without a compensating reduction in the Company's expenses. For example, as  
3 illustrated in Attachment 2 to EXHIBIT MAH-S1, the Company estimates, assuming  
4 unprotected ADIT is amortized over an 18-year period, its cash flow will be reduced in  
5 2018 by \$10.2 million, in 2019 by \$10.3 million, and in 2020 by \$10.5 million. A shorter  
6 amortization period would only increase the amount of these annual reductions in  
7 Kentucky Power's cash flow. But even at 18 years, this reduction in Kentucky Power's  
8 cash flow places significant pressure on the Company's credit metrics and ultimately the  
9 cost of the Company's capital.

10 **Q. HOW DOES THE REDUCTION OF THE COMPANY'S CASH FLOW AFFECT**  
11 **ITS CREDIT METRICS?**

12 A. Moody's Investors Service evaluates Kentucky Power's credit on a stand-alone company  
13 basis. Moody's reviews multiple financial metrics and factors when evaluating  
14 companies such as Kentucky Power. These include the company's regulatory framework  
15 and environment, the company's ability to recover costs and earn returns, the Company's  
16 diversification and financial strength, liquidity, and certain key financial metrics. Among  
17 the more important financial metrics Moody's uses in assigning a credit rating to  
18 Kentucky Power is the Company's ratio of cash flow from operations (excluding changes  
19 in working capital) to the Company's debt.

20 **Q. WHAT IS THE RATIO OF CASH FLOW FROM OPERATIONS (EXCLUDING**  
21 **CHANGES IN WORKING CAPITAL) TO DEBT AND WHAT IS IT INTENDED**  
22 **TO MEASURE?**

1 A. It provides a measure of cash flow generated by the Company's operations that is  
2 available to service a company's debt. As cash flow decreases, as will occur with the  
3 amortization of the Company's excess ADIT, Kentucky Power has less cash "available"  
4 to service debt payments. At some point, a decrease in the ratio may cause Moody's to  
5 lower its credit rating for Kentucky Power.

6 **Q. WHY IS THE COMPANY'S CREDIT RATING OF IMPORTANCE AT THIS**  
7 **TIME?**

8 A. There are two reasons. The first has arisen recently; the second is of importance over the  
9 longer term. The first reason is that although Moody's on March 21, 2018 maintained the  
10 Company's Baa2 credit rating, it revised its credit outlook for the Company from stable  
11 to negative. The Moody's website indicates that a negative outlook indicates a higher  
12 likelihood of a credit rating change over the medium term.<sup>1</sup> Moody's website also  
13 indicates that historically, approximately one-third of issuers assigned a negative outlook  
14 have been downgraded within 18 months of the assignment of a negative outlook. As a  
15 result, the recent assignment of a negative outlook by Moody's underscores the  
16 importance of maintaining, or preferably improving, Kentucky Power's credit metrics,  
17 particularly its ratio of cash flow from operations (excluding changes in working capital)  
18 to the Company's debt. The amortization of the Company's excess unprotected ADIT  
19 over a period of 18 years will help Kentucky Power maintain its credit rating while  
20 providing meaningful rate relief to the Company's customers. Conversely, the use of a  
21 shorter period will increase the stress on the Company's credit metrics and ultimately its  
22 credit rating.

<sup>1</sup> See [https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004)

1 Q. **WHAT IS THE SECOND REASON THE COMPANY'S CREDIT RATING IS**  
2 **IMPORTANT?**

3 A. Kentucky Power's credit rating can affect its cost of capital – both debt and equity. The  
4 Company's cost of debt tends to be directly related to its credit rating. All other things  
5 being equal, a company with a lower credit rating many times will have a higher cost of  
6 debt than a company with a higher credit rating. In addition, a company's cost of equity  
7 bears a relationship – albeit perhaps less direct – to its credit rating. Again, all other  
8 things being equal, a company with a lower credit rating many times will have a higher  
9 cost of equity than a company with a higher credit rating. A utility's cost of capital –  
10 both in terms of its cost of debt and its cost of equity – in turn affects the rates customers  
11 pay.

12 Q. **WHAT IS KENTUCKY POWER'S CURRENT MOODY'S CREDIT RATING?**

13 A. Moody's currently assigns a Baa2 credit rating to Kentucky Power. That is the second to  
14 lowest investment grade rating. Stated otherwise, it is two steps above non-investment  
15 grade rating.

16 Q. **DO YOU HAVE REASON TO BELIEVE THAT ACCELERATED**  
17 **AMORTIZATION (AN AMORTIZATION PERIOD OF LESS THAN 18 YEARS)**  
18 **OF EXCESS UNPROTECTED ADIT COULD LEAD TO A CREDIT RATING**  
19 **DOWNGRADE?**

20 A. Although I participated in discussions with Moody's as recently as March 15, 2018  
21 concerning the Company's credit rating, I am not, of course, privy to all of its  
22 deliberations. Nevertheless, an amortization period of less than 18 years could stress the  
23 Company's credit metrics and consequent credit rating. In this regard, Moody's March

1 21, 2018 press release in connection with its downgrade of the outlook for Kentucky  
2 Power, attached as EXHIBIT MAH-S2, provides insight into Moody’s decision to assign  
3 Kentucky Power a negative credit outlook. In particular, in describing the shift from a  
4 stable to a negative outlook for Kentucky Power, Moody’s explained:

5 “The negative outlook reflects the combination of the utility’s  
6 economically weak service territory, its latest rate case outcome, *and*  
7 *recently enacted tax reform policy*, which will put pressure on credit  
8 metrics over the next twelve to eighteen months” added Schumacher.  
9 Although we anticipate that the company will seek to compensate for  
10 these adverse developments through cost containment and *financial*  
11 *policy*, including the ability to retain cash flow for investment, we also  
12 expect the utility’s increasing capital program will add to its debt  
13 burden....

14 The health of KPCo’s service territory in eastern Kentucky, which has  
15 high exposure to the energy and mining sectors, has impacted the utility’s  
16 revenue and load growth as well as recent rate case outcomes. The area  
17 continues to lag the state in terms of economic trends, and KPCo’s retail  
18 load has declined in each of the past three years, putting downward  
19 pressure on earnings and cash flow.

20 (emphasis supplied). Significantly, among the factors cited for the downgrade, only cost  
21 containment and management of financial policy is subject to the Company’s control  
22 within the next few years. The Company’s rates are “frozen” until January 2021, while  
23 the fruits of the Kentucky Power’s economic development efforts to improve the  
24 economics of its service territory and stem customer loss are several years out. It thus is  
25 critical that the Company, and the Commission, use the one tool available – a reasonable  
26 amortization period for the excess unprotected ADIT – to avoid a credit downgrade.

27 **Q. THE 18-YEAR AMORTIZATION PERIOD FOR KENTUCKY POWER’S**  
28 **UNPROTECTED ADIT IS AT THE LONG END OF THE AMORTIZATION**  
29 **PERIODS EITHER PRESENTED TO OR APPROVED BY THE COMMISSION.**  
30 **CAN YOU JUSTIFY THE DIFFERENT AMORTIZATION PERIODS?**

1 A. Most certainly. Although uniformity in treatment can be important, the Commission's  
2 decisions are based upon the record developed in each case and must address the specific  
3 circumstances of each utility. A one-size-fits-all approach is not appropriate given the  
4 differences among the size and finances of the four investor-owned electric utilities in the  
5 Commonwealth, their very disparate service territories, and the amount of their excess  
6 unprotected ADIT. As paragraph 2(b) of the Settlement Agreement expressly  
7 acknowledges, the 18-year amortization period was agreed upon by KIUC and Kentucky  
8 Power with these differences in mind:

9 The Settling Parties' conclusion regarding the reasonableness of an 18-  
10 year period to amortize Kentucky Power's excess unprotected ADIT is  
11 informed by the Company's specific financial and operating  
12 characteristics, including, but not limited to, the following:

13 (a) the amount of Kentucky Power's excess unprotected ADIT as a  
14 percentage of Kentucky Power's total equity (14.2 percent);

15 (b) the percentage of Kentucky Power's total debt as a percentage of total  
16 capitalization (56.75 percent);

17 (c) the Company's Moody's Investor Service credit rating (Baa2);

18 (d) the recent negative outlook assigned the Company by Moody's; and

19 (e) the decrease in Kentucky Power Company's load and customer base  
20 over the past ten years.

21 **Q. HOW DOES KENTUCKY POWER COMPARE TO THE OTHER THREE**  
22 **INVESTOR-OWNED UTILITIES IN KENTUCKY IN THESE RESPECTS?**

23 A. Counsel for KIUC on April 17, 2018 provided staff and the parties with the following  
24 chart comparing as of December 31, 2017 the four investor-owned electric utilities with  
25 respect to many of these metrics:

	KU	LG&E	Duke	Kentucky Power
Unprotected Excess ADIT (12/31/2017)	\$12,762,150	\$24,282,660	\$33,032,786	\$95,282,425
Commission-Approved/Proposed Amortization Period	15 years	15 years	10 years	18 years
Total Equity (12/31/2017) (\$000)	\$3,357,000	\$2,527,000	\$319,052 <sup>2</sup>	\$670,263
Unprotected Excess ADIT as Percent of Equity	0.38%	0.96%	10.35%	14.2%
Moody's Credit Rating	A3 Stable	A3 Stable	Baa1 Stable	Baa2 Negative
Total Debt/Total Capitalization (12/31/2017)	41.41%	43.02%	46.87%	56.75%
Retail Sales (12/31/2016)	18,881,364 MWH	11,947,052 MWH	4,099,199 MWH	5,862,697 MWH

1 Based on the information provided by KIUC, Kentucky Power's excess unprotected  
2 ADIT is almost seven and one-half times larger than that of the much larger (as measured  
3 by retail sales and total equity) Kentucky Utilities Company. Louisville Gas and Electric  
4 Company, which has MWh sales nearly twice those of Kentucky, has excess unprotected  
5 ADIT approximately one-quarter the size of Kentucky Power's excess unprotected ADIT.  
6 The Company's excess unprotected ADIT is nearly three times larger than the excess

<sup>2</sup> Per Case 2017-00321, electric common equity.

1 unprotected ADIT of Duke Energy Kentucky, which is closest in size to Kentucky  
2 Power.

3 The service territories of Duke, Kentucky Utilities, and Louisville Gas and  
4 Electric have not experienced the serious economic downturn or loss of customers  
5 endured by Kentucky Power. Indeed, the service territories, or substantial portions of the  
6 service territories, of all three lie within the “Golden Triangle.” Also supporting the  
7 Company’s request is that the credit ratings of all three of the other investor-owned  
8 electric utilities in Kentucky are stronger than Kentucky Power’s Baa2 rating.  
9 Particularly significant is the fact that unlike Kentucky Power none are facing a negative  
10 credit outlook.

11 In sum, Kentucky Power lacks the financial and operational wherewithal to  
12 amortize its excess unprotected ADIT over the periods the other three investor-owned  
13 electric utilities may be required to use.

**V. REASONABLENESS OF THE SETTLEMENT AGREEMENT**

14 **Q. DOES THE SETTLEMENT AGREEMENT FAIRLY BALANCE THE**  
15 **INTERESTS OF THE COMPANY AND ITS CUSTOMERS?**

16 **A.** Yes. The Settlement Agreement provides meaningful rate relief to the Company’s  
17 customers in the form of a rate credit equal to more than \$10 million a year. It does so  
18 while helping to minimize the risk of a credit downgrade and the resulting increased  
19 capital costs that ultimately would be borne by Kentucky Power’s customers. This is a  
20 win-win for the Company and its customers.

1 Q. DO YOU HAVE A RECOMMENDATION FOR THE COMMISSION?

2 A. Yes. The Settlement Agreement should be approved by the Commission without  
3 modification. In addition, the Commission should establish rates and charges in  
4 conformity with the agreement.

5 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

6 A. Yes.

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